Evaluating the strength of the Internal Audit Function:

The Case of Sudanese Banks

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This thesis is submitted in partial fulfilment of the requirements for the degree of doctoral of philosophy of the business school, Liverpool John Moores University.

February 2007

Declaration

This is to certify that this thesis is the result of an original investigation. The material has not been used in a submission for any other qualification. Full acknowledgement has been given to all sources used.

Acknowledgements

During the period of working on this research project, I have received a great deal of support from a number of people to whom I extend my thanks.

My very deepest gratitude must go to Mr Roger Pegum, the director of the study, for being there where needed and for his valuable advice during the research stages in friendly way. Also I would like to give special thanks to Mr. Bob McLelland, the second supervisor for his great help, constructive criticism which has played a big role during my study. Many thanks must go to Mr. David Gardner, the third supervisor, for his helpful guidance. I would like to thanks to the all participants who completed the study questionnaire and those who participated in the pilot study as well as the interviewees.

I would like to express my appreciation to all staff of the postgraduate office and Aldham Robarts LRC.

Lastly, my deepest gratitude goes to my family, mother, brothers and sisters for their love and support.

I am also indebted to my wife Inas, my son and my daughter for their understanding, patience, very helpful prayers and support throughout the course of this study.

ABSTRACT

To date, the focus of the research in the area of auditing, in particular, the strength of internal audit function and its relationship with external auditing has been mainly conducted in developed countries. Adding to the very few studies carried out in developing countries, this is the first study attempt to investigate the issue in the Sudanese context.

This study aims to investigate the strength of internal audit function in Sudanese banks in terms of internal audit departments' objectivity, competence and work performance and monitoring of internal controls and furthermore; the relationship between internal and external audit functions in term of external auditors' reliance decision on the work of internal auditors. Twenty-one hypotheses are developed to explore the relationships between the demographic variables and the above factors by surveying 117 banks internal auditors in 21 banks and external auditors responsible for banks' audits using self-administered questionnaire. Furthermore, 8 interviews were conducted with external auditors (partners) and banks' directors of internal auditing.

The study results revealed that internal and external auditors' perceptions of objectivity were affected by internal audit departments reporting level as the majority of internal audit departments reporting level was the bank managing director. Beside the process of appointing and removing the internal audit directors. Furthermore, competence was found to be dissatisfactory due to rare opportunities of training in auditing and internal auditing, inexperienced staff and high turnover of internal auditors. With the exception of some shortages of internal auditors in some banks and few difficulties of audit coverage, work performance of internal audit departments was found to satisfactory. Moreover, the study indicated that external auditors placed some reliance on the work of internal auditors, however, external auditors rated work performance and monitoring of internal controls as the most important factor when they rely on the work of internal auditors followed by objectivity and competence.

The implications of these results were discussed, as well as comparing the findings of this study with some other settings' studies results. The study has also provided some recommendations.

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CHAPTER ONE
INTRODUCTION

1.1 Background for the study:

More than 60 years ago Arthur E. Hald, one of the founders of the Institute of Internal Auditors (IIA), highlighted the need for internal audit function as "necessity created internal auditing and is making it as integral part of modern business. No large business can escape it. If they haven't got it now, they will have to have it sooner or later, and, if events developing as they do at present, they will have to have it sooner" (Fisher 1991:1).

The recent corporate failures have increased the prominence of internal auditing. Regarding this issue, Schneider (2003) argued that the bankruptcies, financial irregularities and fraudulent activities that occurred in Enron, WorldCom and other firms have increased the need for corporate monitoring. He concluded that external audit failures related to these events increase the role of internal auditing in corporate monitoring.

Although the objectives of internal audit function are different from those of external audit but there are common similarities that provide the basis for co-operation between the two functions (Moeller and Witt 1999). However, internal auditing should be an independent function within any organisation. Internal auditing usually assists management by reviewing, assessing and helping to improve and ensure that there is a proper internal control system. Therefore, internal auditors work with accounting staff and other managers to help to improve the internal control system within their organisations. According to the new definition of internal auditing (IIA 2000), the scope of internal audit function should cover the systematic review, appraisal and reporting of the adequacy of the systems of managerial, financial, operational and budgetary control and their reliability. After the revision of the Standards for Professional Practice of Internal Auditing 2002, the role of internal auditing shifted from routine compliance audits to value-added service. It is argued that if the internal audit departments maintained reasonable standards of independence and objectivity, competence and work performance and monitoring of internal controls they will be able to contribute to an effective internal audit.

On the other hand, the main objective of external auditors is to express an opinion on the financial statements. In order to achieve this objective, an external auditor need to evaluate the internal control system of the organisation to ensure that this system can detect and prevent any material misstatements (Haron et al 2004) and management is responsible for financial reporting and the implementation of all internal controls.

For the external auditor to rely on any work performed by internal auditors, the external auditor should assess the quality of internal audit function (U.K, Statement of Auditing Standards SAS 500 and USA, Statement of Auditing Standards SAS 65). Recently, in USA, the Public Company Accounting Oversight Board PCAOB (2004) maintained that the considerable flexibility that external auditors have in using the work of internal auditors should translate into a strong encouragement for companies to develop high-quality internal audit functions. In other words, the stronger internal audit function, the more reliance placed by external auditors on the work of internal auditors.

The common characteristics of studies conducted in the area of evaluating the strength of internal audit function and degree of reliance placed by external auditors on the work of internal auditors is their focus on three variables to evaluate the internal audit function, objectivity, competence and work performance of internal auditors. For example, (Abdel-Khalil et al 1983; Schneider 1985a; Margheim 1986; Wangonner and Rickette 1989; Edge and Farley 1991; Haron 1996; Felix et al 1998; Gramling 1999; Haron et al 2004; Al-Twaijry et al 2004).

Sudan is a developing country, during the 1980s and the 1990s has experience economic problems in addition to the civil war in the Southern Estates which lead to economical and political instability. As Sudanese banks are important part of the economic cycle of the country, are heavily affected by the economic crises and the political instability.

Internal audit departments in Sudanese banks are also affected by these problems in terms of budgetary constraints that have limited the resources allocated to internal audit departments. Therefore, budgets allocated for training of internal audit staff were decreased. The research participants considered internal audit departments to be significantly understaffed and sometimes are unable to cover the banks' activities in an appropriate way.

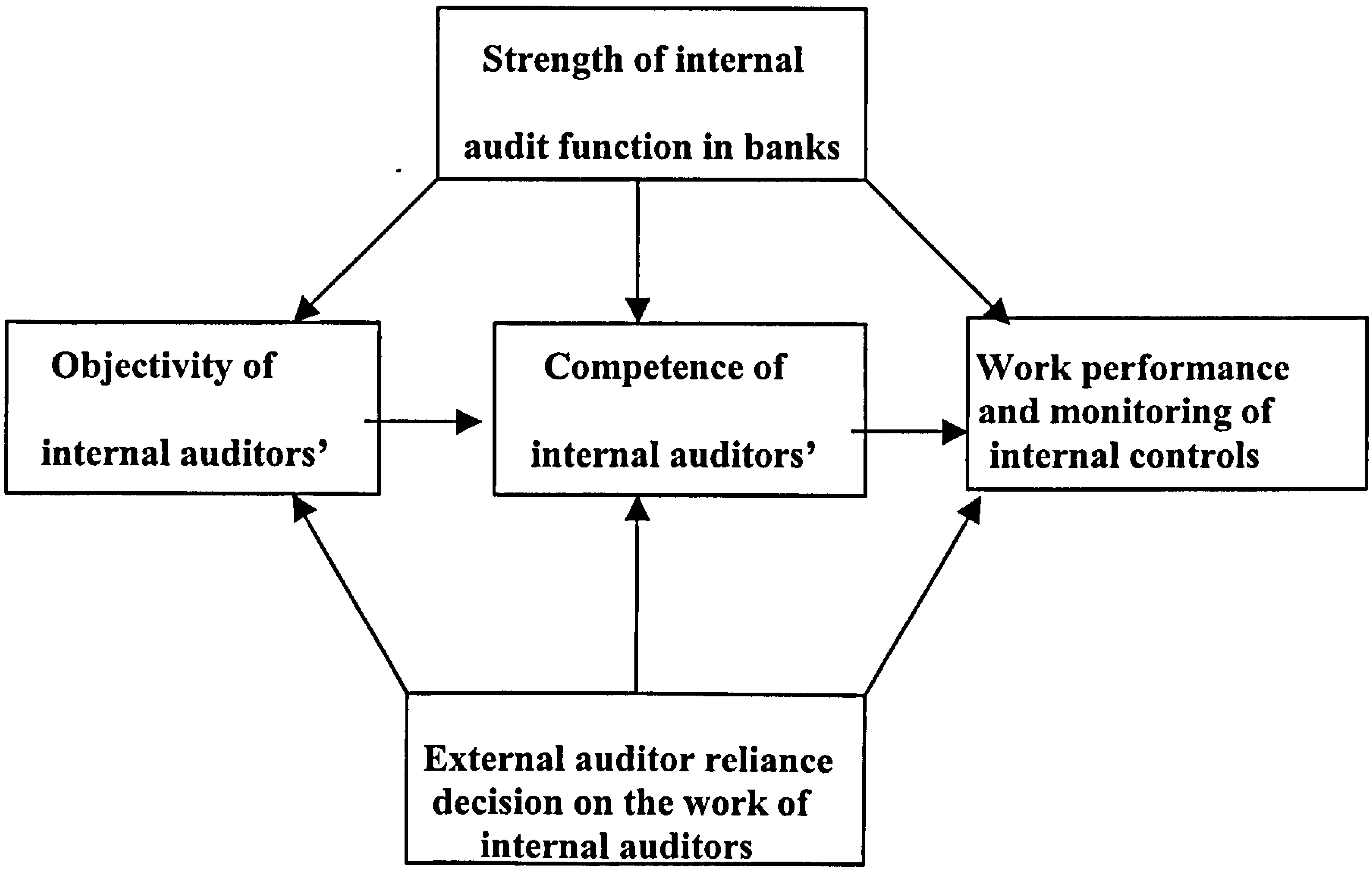
In addition to the above problems, internal audit departments in Sudanese banks have some problems of independence and objectivity, in terms of reporting level of the departments and appointing and removing the internal audit directors.

In spite of these problems, since the mid 1990s, the Bank of Sudan is conducting considerable efforts to increase the effectiveness of internal audit departments in Sudanese banks; for example, Article 32.e of Bank of Sudan Act (2002) requires all banks to maintain an effective system of internal controls. The same article obligated every bank operating in Sudan to submit to the Central Bank a report on the results of the system of internal controls. Furthermore, the Banking Controls Administration in the Bank of Sudan issued directive No 2 in 2002, "Preventive Controls" that requires every bank to establish and supervise the internal controls to meet the objectives of the bank and to establish an audit committee that is responsible for the board of directors.

Moreover, the Bank of Sudan regulations require each bank to appoint external auditors to review the bank financial statements (Circular 30/95, 7.11.1995).

As far as Sudanese banks are concerned with this issue, strength of internal audit function and external auditors involvements in auditing banks accounts, this study attempts to test the views of internal and external auditors regarding objectivity, competence, and work performance and monitoring of internal controls in Sudanese banks and therefore, to evaluate reliance placed by external auditors on the work of internal auditors.

Figure 1.1 Strength of internal audit departments, and factors affecting the reliance decisions on the work of internal auditors.



Adapted from Evaluation of Internal Auditing, Hierarchy Level.

Source: Messier and Schneider (1988)

1.2 Aims and objectives of the study:

The main aim of this study is to examine the strength of internal audit function in Sudanese banks and therefore to evaluate the reliance placed by external auditors on the work of internal auditors. To achieve this main aim, the following objectives were set for the study:

1) To test the views of participants (internal and external auditors) regarding:

a) Objectivity of internal audit departments at Sudanese banks.

b) Competence of internal audit departments at Sudanese banks.

c) Work performance and monitoring of internal controls at Sudanese banks.

2) To examine the role of demographic variables (educational level, experience, experience in internal auditing, the numbers of internal auditors in the internal audit

departments, auditors' occupation, auditors' sector and gender) in relation to their evaluations of:

a) Objectivity of internal audit departments at Sudanese banks.
b) Competence of internal audit departments at Sudanese banks.
c) Work performance and monitoring of internal controls at Sudanese banks.

3) To evaluate the degree of reliance placed by external auditors on the work of internal auditors in Sudanese banks considering the auditors' sector (private audit firms and the General Auditors' Chamber auditors).

4) To fill the gap in the auditing literature with respect to the study variables, regarding the evaluation of internal audit departments in the banking sector and especially in Sudan as a developing country.

5) Providing recommendations and suggestions for managing objectivity, competence and work performance and monitoring of internal controls, based on the study results for the banking sector in Sudan and developing countries.

1.3 The problem:

In the USA the new, New York Stock Exchange (NYSE) (2004), corporate governance standards require every listed company to maintain an internal audit function, while in the UK the new Combined Code (2003) did not require UK listed companies to have an internal audit function, but companies should justify their decision not to have an internal audit function. Sudan was colonised by Britain and affected by the British financial Laws and regulations. Nevertheless, the Sudanese Companies Act does not require listed or unlisted companies to establish an internal audit function but the bank of Sudan regulations require each bank operating in Sudan to establish an internal audit department (Circular no. 9/2005) and require each bank to present audited accounts with a maximum period of 3 months after the closure of the final account (Circular no. 30/1995).

As internal and external auditors are concerned with strength of internal audit function and both are striving to maintain relationship between the two functions, the problem selected for in this study is inherent in answering the following questions:

1- How the demographic background of internal and external auditors influence their evaluation of internal audit function in Sudanese banks in terms of, objectivity, competence and work performance and monitoring of internal controls?
2- To what extent the external auditors responsible for banks' audits are relying on the work of internal auditors in Sudanese banks, in relation to, objectivity, competence and work performance and monitoring of internal controls maintained by internal audit departments?

1.4 Structure of the thesis:

The content of this study are divided into seven chapters:

Chapter two: This chapter presents a review on the literature related to factors that strengthen the internal audit function. Certain issues are discussed, including the concept of internal auditing and the changes that occurred on the role of internal auditing. The relationship between the study variables objectivity, competence and work performance and the role of internal auditors in monitoring of internal control system are also discussed.

Chapter three: This chapter highlights a review on the literature regarding issues related to the relationship between internal and external auditing. However, the concept of coordinating the work between internal and external auditors is examined. The chapter presents and compares the auditing Standards governing the use of internal audit work by external auditors. Finally, a number of previous studies conducted in this area are reviewed to reflect the main features of previous studies conducted in this area.

Chapter four: This chapter addresses a brief history and geography of Sudan highlighting the developments of business development since Sudan independence in 1956. The chapter discusses the political, economical and socio-cultural environment in Sudan. The chapter throws a light on the origin of banking industry in Sudan and the changes affected this industry as well as highlighting the development of accounting, auditing and internal auditing professions.

Chapter five: Discusses the methodology and methods conducted to carry out this research. The research objectives, study sample and population and hypotheses were presented. As the study employed two methods of data collection quantitative and qualitative methods (survey and interviews), these two methods were discussed in details. Other methodological issues will also be discussed in this chapter.

Chapter six: This chapter presents the findings of the survey. The primary data collected through the questionnaire will be presented in this chapter. The chapter describes and summarise the questionnaire data that was collected from internal auditors in Sudanese banks and external auditors responsible for bank audits. However, the major aim of the chapter is to examine the study hypotheses, using the relevant statistical tests namely, Analysis of Variance (ANOVA) and t-test and to discuss the study hypotheses.

Chapter seven: The data collected from the eight interviews with directors of internal auditing and partners at auditing firms are analysed and interpreted in chapter 7. This chapter aims to provide in-depth evidence about the main issues that this study attempts to address. In addition, linking the findings of the interviews with the questionnaire findings may provide a comprehensive picture for the factors that strength the internal audit function in Sudanese banks.

Chapter eight: This chapter addresses four issue; namely, the summary of the study chapters, focusing on the findings of the study, recommendations of the study, some guidelines and directions for future research and limitation of the study.

1.5 Contribution to knowledge:

The following points will explain how the thesis contributes to knowledge as follow:

First, this study is the first one concerning evaluation of internal audit function in the banking sector in developing countries, mainly Sudan. Where, the developing countries are in greater need of similar studies to help them to develop and increase their knowledge in the area of internal auditing and the relationship between internal and external auditors.

Second, this study could be useful for academics and practitioners. For academics, it will improve their understanding of the factors strengthen the internal audit function, namely objectivity, competence and work performance and monitoring of internal controls and external auditors reliance on the work of internal auditors. For practitioners, it may help to solve the practical problems facing the internal audit function in Sudanese banks in terms of its objectivity and competence and its relationship between internal and external auditors.

Third, in Sudan, it is not common to use more than one research method. This research study applies triangulation of research methods by combing the questionnaire survey, for examining the study variables across large number of cases, with the interview method, for in-depth investigation of the factors affecting the strength of internal audit function. This combination may provide a better explanation of the research problem, which is the main driver for choosing the appropriate research methods rather than concentrating on scoring epistemological points (Burns 2000).

1.6 Conference papers based on the thesis:

(a) Ahmed, O *Internal auditing in Sudanese banks*, The Research Forum of School of Accounting, Finance and Economics, Liverpool John Moores University, March 2005. Verbal presentation based on the pilot study results.

(b) Ahmed, O *Evaluating the effectiveness of internal audit function in Sudanese banks*, British Accounting Association. BAA Doctoral Colloquium, April 2006, Portsmouth Business School.

(Verbal presentation. The abstract is published in the conference book 2006-. This is based on the pilot study results.)

CHAPTER TWO
FACTORS STRENGTHEN THE INTERNAL AUDIT FUNCTION

2.1 Introduction:

Since its foundation of in 1941, the Institute of Internal Auditors played an important role in organising the profession. As a result the profession responds to changes and is performing valuable services for management (Gobeil 1972).

Ratliff et al (1988:41) explained that the Institute of Internal Auditors has taken four important steps to promote a high degree of professionalism among internal auditors and their departments in organisations. The Institute has adopted; A Statement of Responsibilities, Standards of Professional Practice, A Code of Ethics and a Programme of Auditor Certification. All these actions were taken to encourage the best possible performance of internal auditing and to develop the profession.

The Cadbury Committee (1992) regarded it as a good practice for companies to establish internal audit functions to monitor the key controls and procedures. The Committee recommended that, regular monitoring is an integral part of a company's system of internal control and helps to ensure its effectiveness. An internal audit function is well placed to undertake investigations on behalf of an organisation's audit committee as requested by the Cadbury. The chief internal auditor should have unrestricted access to the chairman of the audit committee in order to ensure the independence of their positions (Cadbury report para 4.39).

In general, there are two benefits to having an internal audit department. The first derives from the conventional audit that focuses on the audit of financial systems and control. Therefore, it assists in preventing and detecting irregularities and safeguards the assets of an organisation. The second is performance audit, which concentrates on the economy, the efficiency and the effectiveness of different aspects of the organisation (Al-Tawijry et al 2003).

This chapter is divided into main two sections:

Section one: this section starts with defining the internal audit function and searching for the roots of internal auditing throughout its development. The section throws a light on how can the internal audit function can add value to the organisation by highlighting the importance of Standards of Professional Practice for Internal Auditors. In addition, this section reviewed the role of internal auditing in monitoring the internal control system, beside its role in risk management, as well as its relationship with the board of directors and the audit committee.

Section two: this section divided into three parts. The main aim of this section is to introduce the factors affecting the strength of the internal audit function.

Part one: this part introduces the issue of independence of internal auditing by discussing the standards covering this area. Independence is measured by organisational status and objectivity. This part also discusses other issues related to objectivity, such as, internal auditors' reporting level, appointment and removal of internal auditors and issues that lead to conflicts of interest of internal auditors.

Part two: This part discusses the concept of competence in internal auditing. The factors that lead to competence were discussed, such as, Certification Programmes for Internal Auditors, qualifications and recruitment and internal auditors training.

Part three: This part deals with work performance issues, the internal audit charter as it is describes the work and responsibilities of internal auditors and discussion of details of the role of internal auditors in internal controls and corporate governance issues. Issues included are the need for and objectives of internal controls, the relationship between the internal control system and other systems of control like management, board of directors and external auditors. Finally, the recommendations of the committees of corporate governance in the UK, USA and Africa are presented.

2.2 Section one:

2.2.1 Definitions of internal auditing:

The Institute of Internal Auditors, "Statement of Responsibilities of Internal Auditors" (1981), defined internal auditing as "an independent appraisal activity established within an organisation as a service to the organisation. It is a control which functions by examining and evaluating the adequacy and effectiveness of other controls" (see Venables and Impey 1990: 6).

Recently, the Institute of Internal Auditors in its 58th International Conference approved an update to the definition of internal auditing. The new definition defined internal auditing as "an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic disciplined approach to evaluate and improve the effectiveness of the risk management, control, and governance processes" (Institute of Internal Auditors, 2004).

It can be argued that the first and the second definitions contained two important issues. The first one is that internal auditors ought to be independent. Secondly, internal auditing is an appraisal function for the organisation activities to help staff and management in performing their duties and ensures adequate internal control. The second definition has shifted the focus of the internal audit function to add value to improve the operations of the organisation and to evaluate and improve the effectiveness of the organisation's risk management, control and governance processes (Goodwin 2004). Therefore, the new definition changed the role of internal auditors to a value added and consulting function to management.

2.2.2 The development of internal auditing:

At the beginning of the Twentieth Century, the economic growth and developments in business organisations increased the need of organisations to maintain control over their business activities and operations. It is argued that management lost direct contact with the most subordinates. Therefore, internal auditors were appointed to address the problem of controlling the activities and operations of their organisations. The primary tasks of internal auditors were to review and report on the activities of their organisations. However, their tasks varied from checking routine financial and

operational activities to analysing and appraising these activities and operations (Institute of Internal Auditors 2004).
Historically, the internal audit function has been considered as a monitoring function to aid management in controls. Morgan 1979, viewed internal audit as an important aspect of organisational control and identified the aspiration of internal auditors to move from the controller role to controller-advisor role as a part of their profession (internal auditing). He noted that this shift "can only be successful achieved at the cost of surrendering certain elements of the controllership role and some claims to formal authority which go along with it" (Morgan 1979, cited in Spira and Page 2001 p. 653).
The year 1947 witnessed the issue of the Statement of Auditing Responsibilities by IIA that included the first definition of internal auditing. Bou-Raad (2000) argued that the main objective of internal auditing according to the first definition is to advise the members of the organisation how to discharge their responsibilities. The main concern of internal auditors at that time was to evaluate the correctness of financial transactions.

McNamee and McNamee (1995) explained that due to the growth in size and complexity of business organisations during the Industrial Age the need for an internal audit function increased. However, they discussed the changing role of internal auditing since the Second World War from the validation of transactions to systems auditing. They concluded that the role of internal auditors became a primary agent for transformation in helping the users of the system to design test and monitor their own controls.

Besides issuing the Statement of Responsibilities in 1947, Ratliff et al (1988) explained that the Institute of Internal Auditors has taken four important steps for promoting a high degree of professionalism among internal auditors and their departments. The Institute has adopted since its formation: a Statement of Responsibilities, Standard of Professional Practice, a Code of Ethics and a Programme of Auditor Certification. All these actions were considered to be the most important developments since that time.

The new definition of internal auditing approved by the IIA Board of Directors in 1999 has shifted the focus of the internal audit function from assurance activity to that of value added and attempted to shift the internal audit function to a standard-driven approach (Nagy and Cenker 2002). Regarding the new roles of internal auditors, they conducted a study by interviewing directors of the internal audit departments of 11 large publicly traded companies to present some insights and opinions about the newly defined internal audit function. The study found that the internal audit function varies significantly within companies from the traditional assurance function to the value added and consulting function.

2.2.3 The value of internal audit function:

The recent corporate failures have increased the prominence of internal auditing. Regarding this issue, Schneider (2003) argued that the bankruptcies, financial irregularities and fraudulent activities that occurred in Enron, WorldCom and other firms have increased the need for corporate monitoring. He concluded that external audit failures related to these events increase the role of internal auditing in corporate monitoring.

Previous researches have studied number of methods to evaluate the value of the internal audit function. For example, in the USA, Albrecht et al. (1989) conducted a study to evaluate the roles and benefits of the internal audit function and developed a framework for evaluating internal audit effectiveness in 13 companies by using 15 factors as criteria for evaluating effectiveness. The study found that there were four areas that the directors of internal audit departments could improve to strengthen effectiveness within their companies:

- Corporate environment.
- Top management support.
- Quality of internal audit personnel.
- Quality of internal audit work.

The study recommended that in building a strong corporate environment, management and auditors should recognise that the internal audit function add value to the company. This was in line with Ridley and D' Silva (1997) who found that compliance with the professional standards would add value to the internal audit function.

In 1988 the Institute of Internal Auditors (UK) conducted research to investigate the perceptions of both senior management and external auditors of the value of the internal audit function. The study highlighted the main difficulties of how to measure the value of services provided by internal auditors as a major obstacle to such an evaluation. Profitability, cost standards and effectiveness of resource utilisation were identified as measures of the value services. The Study recommendations highlighted the need for ensuring that the internal audit work complies with Standards of Professional Practice of Internal Auditing.

Al-Twaijiry (2000) studied the nature and practice of the internal audit function in Saudi Arabia, by examining in particular if internal auditing adds value to the Saudi Arabian corporate sector. The study found that the overall results suggested that internal auditing failed to fulfil its potential to add value to Saudi Arabians companies.

2.2.4 Internal audit function as monitoring control systems mechanisms:

Historically, internal auditors played an important role in evaluating the effectiveness of internal control systems. According to their organisational status and authority in an organisation, an internal audit function may play a significant role in monitoring an organisation's activities.

Regarding the internal auditor's role in monitoring the internal control system, Chambers et al (1990) explained that the internal control system plays an important role in the internal audit function since the internal auditors are considered as experts in management controls. However, Steward (2006) linked the existence of a strong internal control system and the use of the internal audit function as a review and monitoring mechanism.

The COSO Report (1992) highlighted the responsibilities of the board of directors and management in establishing and maintaining a strong internal control system. The report relies on internal auditors to provide reasonable assurance regarding the adequacy and effectiveness of the organisation's internal control in achieving the organisational goals. The revised Internal Control-Integrated Framework, COSO Report (2003) focused on the role of internal auditors in evaluating the effectiveness of the internal control system by stating that:

"Internal auditors play an important role in evaluating the effectiveness of internal control systems, and contribute to ongoing effectiveness. Because of the organisational position and authority in an entity, an internal audit function often plays a significant monitoring role" (COSO, 2003, p.4).

Rezaee (1995) viewed the role of internal auditors in the context of the COSO Report that the internal auditor should assist and participate with management in:

Defining the internal control and related objectives.

Establishing internal control and its components.

Determining appropriate evaluation tools in measuring adequacy and effectiveness of internal control.

Goodwin and Seow (2002) conducted research by examining the perceptions of auditors and directors in Singapore regarding the impact of certain governance mechanisms that prevent and detect control weaknesses, financial statements errors and fraud. The results of the study indicated that auditors and directors believe that the existence of an internal audit function and strict enforcement of a proper code of conduct have a significant influence on the organisation's ability to strengthen its internal controls, prevent and detect fraud and financial statement errors and enhance audit effectiveness.

The professional literature, in terms of the auditing standards, has contributed to the role of internal auditors in monitoring and evaluating the internal control system. In December 1994, the Auditing Practices Board issued the Audit Agenda. This document explained the role of internal auditors in different matters, including producing reports to directors or officers on the appropriateness and adequacy of systems of controls (Para. 4.36, audit agenda Dec. 1994).

Furthermore, the IIA issued the Statement of Internal Auditing Standards (SIAS) No. 1, "Control-Concept and Responsibilities". The statement highlighted the role of internal auditors in assisting their organisations in discharging their responsibilities by providing them with information regarding the internal controls.

Moreover, the revised statement of responsibilities of internal auditing (IIA 2000: 3) as a part of the standards framework stated that "the objective of internal auditing is to assist all members of management in the effective discharge of their responsibilities by furnishing them with analysis, appraisal, recommendations and pertinent comments concerning the activities reviewed. The internal auditor is concerned with any phase of business activity where he can be of service to management. This involves going beyond accounting and financial records to obtain a full understanding of the operations under review".

Based on the above, it can be concluded that internal auditors can play an important role in monitoring the internal control system and assist management to discharge its responsibilities.

2.2.5 The role of internal audit function in risk management:

Selim and McNamee (1999a: 148) defined risk as "a concept used to express uncertainty about events and/or outcomes that could have a material effect on the goals and objectives of the organisation".

The International Standards for the Professional Practice of Internal Auditing, the Performance Standard 2100-3 (2003) defined the risk management process as the identification and evaluation of potential risks that might affect the achievement of the objectives of an organisation and determination of adequate corrective actions.

The new definition of internal auditing increased the focus on the issue of risk management. In this aspect, Chambers (2000) noted the increased focus on risk management during the last five years in the professional journals and newsletters related to internal auditing, in terms of increasing the references to risk and in the titles of articles therein.

Regarding the role of internal auditing, it can be argued that internal auditing moved from a control-based approach to risk management and adding value by providing assurance that these two factors are being understood and managed. The role of the internal auditor is to help their organisations in identifying and evaluating risks (Walker et al 2003). In line with Walker 2003 argument, Spira and Page (2003) argued that internal auditors are positively playing an important role to embrace the opportunity to participate in achieving the corporate goals through their contribution in risk management. Accordingly, recently published reports on corporate governance assume that risk can be identified, quantified and strategically managed. They identified that internal auditors as experts in risk management and internal controls issues, can play an important role within their organisations.

Leung et al (2003) conducted a study to examine the role of internal auditors in corporate governance in Australian companies. The study found that the majority of internal auditors (74 %) considered risk management as an important internal audit objective, while (91 %) believed the monitoring of internal controls to be one of their objectives. However, the majority of the respondents used to report regularly in detail on any risk issue and internal control system.

To conclude, risk management is one of the key issues of corporate governance. As a result management is responsible for this issue, internal auditors also need to understand their new role according to recent changes after the issuing of the new definition.

2.2.6 The relationship between board of directors, audit committees and the internal auditing:

The board of directors, the audit committees, executive managers, internal auditors and external auditors are the cornerstones of effective corporate governance in organisations (Bishop 2002). Therefore, effective corporate governance should be maintained upon strong relationship between the board of directors, audit committee and the internal audit function.

Pass (2004) expressed the views that the boards of directors are responsible for the governance of its organisations and have an important monitoring role to play. Generally, the board of directors consists of two types of directors, executive and non-executives. On the one hand, the responsibilities of the executive directors include; setting the organisations strategic objectives, provide the leadership with the necessary information, supervising the management and reporting to the shareholders on their stewardship. On the other hand, the main responsibility of non-executive directors is to monitor the executive decisions and ensure that the organisation is acting in a reasonable way to assist management in achieving its functions.

The board of directors represents all stockholders in monitoring management activities. However, non-executive members of the board of directors are not in position to monitor closely the management operations. As a result, they will not be able to control management properly. Thus, a lot of companies in developed countries established audit committees to help the board of directors to supervise management. The main responsibility of audit committees is monitoring the financial reporting procedures, the internal control system and receiving reports for internal audit and external audit (Cook 1993).

The board of directors is appointed by the shareholders of organisations. Beasley and Salterio (2001) expressed that this delegation of authority, because the shareholders do not have enough incentive to devote resources to ensure that management is working for the interest of the shareholders. This is consistent with Fama and Jensen (1983) in their famous research article "Separation of ownership and control" that described the board of directors as the highest internal control mechanism that monitors management.

Furthermore, the revised Turnbull Report (2005) stressed that the responsibility for reviewing the effectiveness of internal controls lies with the board of directors. The Report recognised that the board delegate this task to its audit committee.

The Blue Ribbon Committee (1999) stressed on the importance of audit committees as a monitoring mechanism. Regarding this issue the Committee suggested that board of directors should delegate their responsibilities to supervise management's financial reporting to an audit committee. Additionally, it is suggested that audit committees increase the creditability of the financial reporting by monitoring the internal and external audit function.

In line with the Blue Ribbon Committee, the Securities and Exchange Commission (SEC) stated that "Audit committees play a critical role in financial reporting system by overseeing and monitoring management's and the external auditors' participation in the financial reporting process. Audit committees can, and should, be the corporate participant best able to perform that oversight function" (SEC 1999:1). Accordingly, audit committees as a part of the board of directors have an important role to play in improving the quality of financial reporting.

Regarding the relationship between internal auditing, board of directors and audit committees, the revised definition of internal auditing expanded the scope of the profession to include evaluating and improving the organisation's governance process. Accordingly, management and audit committees are seeking assistance from internal auditors on corporate governance issues (Steinberg and Pojunis 2000).

Furthermore, the Internal Auditing Standards have contributed to the literature regarding the relationship between internal auditing and the board of directors. The Standard 2130- issued by the Institute of Internal Auditors- explained that the internal auditing activity should contribute to the organisation's governance process by evaluating and improving the process (Institute of Internal Auditors 2003).

The Statement of Internal Auditing Standards (SIAS) No. 7, encouraged the relationship between audit committees and internal auditors and provides guidelines to internal auditors on communication with audit committees. The director of internal auditing should have direct communications with the board via audit committees. It is suggested by SIAS 7 that regular communications with the board will assist to ensure independence and provide a channel of communication to keep each other informed on matters of mutual interest.

Moreover, the Treadway Commission (1987) considered the board of directors and the audit committee as the cornerstone of the firm's control mechanism. The commission noted that the internal audit function and the audit committee, together with internal accounting controls played an important role in the internal controls that can help in preventing and detecting fraudulent financial reporting. Consistent with the recommendations of Treadway Commission, the Institute of Internal Auditors issued its document "Improving audit committee performance: what works best". In this document, the IIA declared that the objectives of the audit committees and internal auditors are close. Therefore, the ability of the audit committee and internal auditing to work together may help the audit committee to conduct its responsibilities to the board of directors and the other parties. The recommendations of the two bodies suggested that there is a strong relationship between audit committees and internal audit function (Cited in Menon and Williams 1994).

To summarise, in the area of internal controls, the board of directors is responsible for the company's system of internal control. The board should set polices on internal controls and seek regular assurance to satisfy itself that the system is functioning effectively. The role of management is to implement board polices on risk and control. In order to fulfil these responsibilities, management should identify and evaluate the risks, operate and monitor a suitable system of internal controls which implements the policies adopted by the board.

2.2.7 The development of the Standards of Professional Practice of Internal Auditing:

The primary objective of this section is to review the literature concerning the Standards for Professional Practice of Internal Auditing (SPPIA) issued by the Institute of Internal Auditors, (revised in 2004) and to reflect its developments. Fadzil et al (2005) explained that SPPIA are the criteria used to evaluate and measure the operation of internal audit departments. However, in this point, the SPPIA include five general standards:

- The independence of internal auditing department from the activities audited, and the objectivity of internal auditors (organisational status and objectivity).
- The professional proficiency of internal auditors and due professional care, in this study the researcher prefers to use the term competence instead of professional proficiency as long as they give the same meaning in the literature of internal auditing.
- The scope of internal auditing work.
- The performance of internal auditing work, in this study the term work performance will be used instead of the performance of internal auditing work.
- The management of the internal auditing department.

The objective of the current research is to evaluate the strength of internal audit departments and the reliance decision placed by the external auditors on the work performed by internal auditors in Sudanese banks. The study will use the three variables (objectivity, competence, ad work performance) as these variables were used in the majority of the studies in this area of research.

In general, the Standards for Professional Practice of Internal Auditing (2004) identified the purposes of the standards as follows:

(1) To delineate basic principles that represents the practice of internal auditing.
(2) To provide a framework for performing and promoting a broad range of value-added internal audit activities.
(3) To establish the basis for the measurement of internal audit performance.
(4) To foster improved organisational processes and operations

By considering the above types and purposes of SPPIA, it can be noted that there should be homogeneity between internal auditing standards and its objectives and the internal audit function. Accordingly, Coetzee (2004) argued that the SPPIA represent the minimum requirements to be maintained by internal auditors in practising their profession.

The Internal Auditing Standards include various criteria for evaluation and measurement of internal auditing. In 2004, the new framework for the SPPIA has restructured to be in line with the new definition of internal auditing issued in1999. The standards have identified the roles of internal auditors in control activities, risk management and corporate governance.

The new framework consisted of three types of standards: 1) attribute standards that focused on the organisations and personnel performing the internal audit function. 2) The performance standard addressed the nature of the internal audit services, providing quality criteria in how to measure these services. 3) The implementation standard provided guidance applicable in specific types of engagements (IIA 2004).

With regard to the IIA new framework, the Smith Report (2003) recommended that the audit committee should ensure that the internal audit function has the resources and access to information to enable it to fulfil its responsibilities and to perform its work according to professional standards for internal auditors.

Some research studies have focused on the (SPPIA). For example, Burnaby et al (1994) conducted an international study to determine the adherence to the SPPIA and to compare the functions covered by internal auditors in the surveyed countries (11 countries). These countries were selected as they were listed in the IIA's Membership/Continuing Professional Development Directory. The study found that, 82% of internal auditors are in compliance with SPPIA and follow the IIA Standards. It was argued that although the sample was selected from the membership of the IIA, 18% were not in compliance with the IIA's standards. This may raise a question about the quality of internal auditing in these countries (please see the table 2.1).

There is a strong relationship between the quality of the internal control system and the SPPIA. Fadzil et al (2005) examined whether the internal audit departments of Malaysian companies registered in Kuala Lumpur Stock Market comply with the (SPPIA) of IIA (2001), and to whether compliance with SPPIA has any effects on the quality of the internal control system of the company. The study found that management of internal audit departments, professional proficiency, and objectivity factors significantly affects in the monitoring aspect of the internal control system. The scope of work and work performance significantly influence the information and communication aspects of the internal control system. Work performance, professional proficiency and objectivity affect the control environment factor of the internal control system.

As mentioned above, the objectives of the study are to evaluate the effectiveness of internal audit departments and therefore to examine the reliance decisions of external auditors on the work performed by internal auditors. The next part will focus on the literature concerning objectivity, competence and work performance and monitoring of the internal control system.

2.3 Section two: Factors affecting the strength of internal audit function:

One of the main objectives of this study is compare the views of internal and external auditors regarding three issues; objectivity and independence, competence, and work performance and monitoring of internal controls as a part of the work performance of internal auditors. Thus, this section will be divided into three parts to discuss these three factors considering both, the professional and the academic literature. With regard to the factors that strengthen internal auditing, Schneider (1984) conducted a descriptive study model in examining the factors of internal auditing, objectivity, competence and work performance. In a more recent study by Felix et al (2001) it was indicated that external auditors' reliance on the internal audit function is affected by the quality of internal auditing (objectivity, competence and work performance) factors. In other words, external auditors will rely on the work of internal auditors if the quality of internal audit function is considered to be high. If the quality of internal audit function is low, external auditors' reliance will be lower.

2.3.1 Part one: Objectivity of internal auditors:

2.3.1.1 The standard of independence and objectivity:

The Institute of Internal Auditors explored the issue of independence in the International Standards for the Professional Practice of Internal Auditing, more specifically, the Standard 1100 Independence and Objectivity. The standard state that "the internal audit activity should be independent, and internal auditors should be objective in performing their work". Regarding the issue of independence, Sawyer

(1988), argued that internal auditors should be independent in order to perform their duties, they should state their opinion freely without any bias or restrictions.

Furthermore, Chun (1997) argued that independence is the cornerstone of auditing. Therefore, an internal auditor must be independent of both, the personnel and operational activities of an organisation.

While Bou-Raad (2000) believed that the strength of an internal audit department is generally assessed according to the level of independence it has from management and from other operating responsibilities. This requires that internal auditors should not be involved in designing the internal control system.

In an early study, Rittenberg (1977) surveyed 47 large corporations in the USA to study internal auditor's involvement in the design of the internal control system and its effect on the internal auditors' independence. The study found that internal auditors were involved in the system design. The study suggested that there should be no compromise of internal auditors' independence when they were involved in the system design. The study concluded that internal auditors should increase their technical competence and updates their knowledge in order to remain competent.

In a more recent study, Bou-Raad and Capitanio (1999) studied the implications of computer hacking on the internal audit function in the banking industry. The study found that internal auditors play an important role in establishing and developing the internal control structure. The study explained that internal auditors are involved to some extent in the development stages of internal control structure. The study concluded that internal auditors are involved in assisting management to protect the internal control structure must be highly qualified and trained. The study suggested that practically all internal auditors are involved in the development of internal controls. However, this involvement may impair the independence of internal auditors.

According to the researcher's survey results, it was found that the involvement of internal auditors in designing the internal control system is a normal trend in the Sudanese banks.

It can be argued that the Internal Auditing Standard differentiates between organisational independence and individual independence or what is known in the literature of internal auditing as organisational status and objectivity, which will be discussed in detail.

2.3.1.2 Organisational status:

The revised (SPPIA, 2004) suggested that the organisational status of the internal audit function and the support provided by management are the major factor of success of internal audit departments. According to the standard (1110) the Organisational Independence, "the director of internal audit should report to a level within the organisation that allows the internal audit activity to fulfil its responsibilities".

The external auditing standards, International Standards of Auditing ISA 610 explained that, ideally internal auditing would report to the highest level of management and be free of any other operating responsibilities.

In exploring the organisational status of the internal audit department, Dunn (1996) observed that the independence of the internal audit department is determined by the manner in which it is supervised. In line with Dunn, Vinten (1999) defined the organisational independence as the situation that will allow the internal audit activity to fulfil its function with effectiveness. In relation to the above definition Lopez et al. (2003) argued that the management team's support is fundamental and that the director of internal auditing should have direct access and freedom to report to every manager including the executive director, the top director and the audit committee.

Simmons (2006) explained that the organisational status of the internal audit department should be sufficient to permit the accomplishment of its audit responsibilities. The internal audit director should be responsible to an individual with sufficient authority to maintain the independence, ensure broad audit coverage and appropriate actions on the audit recommendations (Simmons Web Site).

Studies showed that an individual's social position or stature within an organisation, and ability to objectively disclose information are positively related. For example, Near and Miceli (1985) provide a framework for studying "whistle-blowing" based on existing theories of motivation and power-dependency relationships within organisations. They suggested that the "whistle-blowing" dilemma is caused by certain conditions and events and is influenced by several factors including the social position of employees. They found that staff who work as inspectors or internal auditors will be in stronger positions than other members of their organisation, and thus have greater opportunity to report negative information to management according to their organisational position.

To enhance the organisational status of the internal auditors, the COSO Report (1992) recommended that there should be a clear relationship between the director of internal auditing and the board of directors. Furthermore, the Report (1992, p. 26) states that "It should be recognised that the internal audit function does not have a primary responsibility for establishing and maintaining the internal control system, but it is management's responsibility. But internal auditors evaluate the effectiveness of control systems and thus contribute to ongoing effectiveness. Because of its organisational position and authority in an entity, and the objectivity with which it carries out its activities, an internal audit function often plays a very significant role in effective internal control."

With respect to the organisational independence issue, paragraph 2 and 3 of SAS No. 65 pointed out that the internal auditors should maintain their independence when they are conducting their audits. The standard explained that internal auditing staff are employees within the organisation and therefore are not independent from the entity, so that their reporting relationship should be established. It is important that the director of internal auditing should be responsible to an executive with enough authority to provide the appropriate level of internal auditing coverage and adequate consideration of, and action on, findings and recommendations. Furthermore, the director of internal auditing should have a clear reporting relationship with the board of directors and its audit committee (Braiotta and March 1992).

Finally, internal auditors should have the support of the top management and the board of directors so that they can gain the co-operation of auditees and perform their work free from interference. The Standard 2060 (IIA, 2004) explained this issue in that "the director of internal auditing should report periodically to the board and senior management on the internal audit activity's purpose, authority, responsibility, and performance relative to its plan. Reporting should also include significant risk exposures and control issues, and other matters needed or requested by the board or senior management". It is suggested that the director of internal auditing should not report to divisional management or line managers, as this situation will impair the independence of the department.

2.3.1.3 The organisation and positions of the internal audit departments:

The Basel Committee survey (2002) stressed that the director of the internal audit department in banks is responsible for ensuring that the department complies with sound internal audit principles.

The number of employees in the internal audit department depends on the size and activities of the organisation. According to Ratliff et al (1988) internal audit departments have four levels of professional auditors: directors, managers, senior staff and junior staff.

The following are the responsibilities of internal audit department's personnel:

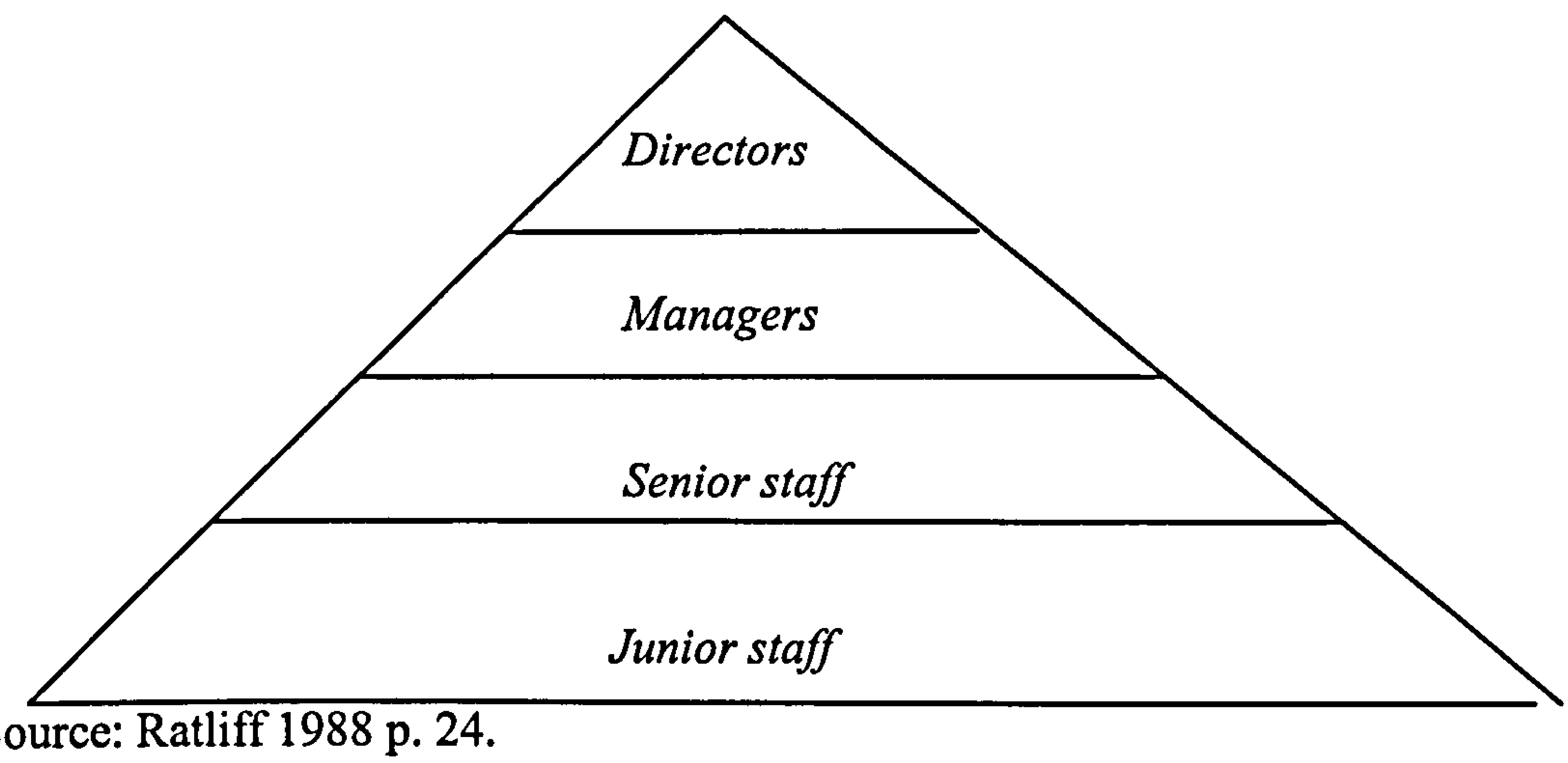
The director of internal auditing: is responsible for the overall internal auditing function. His responsibilities include planning, provides auditing polices and procedures, managing personnel, co-ordination of work with external auditors and the interaction with the board of directors and audit committee and establishes an audit quality program.

The internal audit manager: is responsible for conducting individual audits, beside planning and co-ordinating the audit work. Managers should have reasonable supervisory experience.

Senior staff auditors: have the responsibility to supervise the audit work, senior staff usually have experience of three years in the field of auditing.

Junior staff auditors: usually do the less complex and more daily and routine work.

Figure 2.1 Positions in an Internal Auditing Department



Source: Ratliff 1988 p. 24.

2.3.1.4 Internal auditors reporting level:

The independence of the internal audit department should be developed and maintained throughout the entire hierarchy of the organisation. It can be argued that, the level to which the department reports can be an indicator of its independence and position within the organisation. For example, the director of internal audit department should not be accountable to the executive responsible for finance (chief accountant or finance director) because this will compromise the auditor's independence (Waldron 1980).

As suggested by the Statement of Auditing Standards SAS No SAS 65, the organisational independence of internal audit staff is essential for their objectivity. However, when considering the objectivity of internal auditors, the external auditor should recognise the organisational level to which internal auditors report their results and therefore, the organisational level to which they report administratively. This can be an indicator of the extent of their ability to act independently of the individuals responsible for the function being audited.

A number of previous studies have investigated the reporting level of the internal audit department, for example, Abdel-Khalil et al (1983) hypothesised that the administrative level to which the directors of internal audit departments report is a significant determinant of the external auditors' evaluation of the internal audit department independence.

Clark et al. (1981) studied how Certified Public Accountants (CPAs) judge internal audit department objectivity. The study found that, the independence of the internal audit department and the level of authority (the level to which internal audit personnel report) were the two most important criteria influencing the objectivity of their work.

Ideally, to maintain independence, the internal audit department should report directly to the highest level in the organisation. Burnaby et al. (1994) conducted a study by investigating 123 companies in eleven countries. One of the questions of the study was "to whom does the internal audit department report?" (Please see table 2.1). The study found that, in the United States, the highest level in the organisation is usually the audit committee of the board of directors. Companies in other countries that did not maintain audit committees, the internal audit department should report to the top management other than chief financial officer. Focusing more in the results of the study, it can be argued that it is significant to note that more than 60% of the companies report to board of directors and chief executive officer. This is considerable improvement compared to the past when most of internal audit departments reported to chief financial officers.

To whom does the internal audit department report?

Table 2.1

Country	Directors Audit Committee	CEO	CFO	Other	No Response	Total
Australia	8	7	2	3	0	20
Canada	2	3	0	2	0	7
France	0	7	0	1	1	9
India	1	3	0	1	0	5
Israel	2	4	0	1	0	7
Italy	0	4	3	3	1	11
Japan	0	12	0	1	0	13
New Zealand	1	5	2	3	1	12
South Africa	1	3	4	2	0	10
UK	1	0	4	3	0	8
USA	10	2	7	2	0	21
Total	26	50	22	22	3	123

Source: Internal Auditing, Winter 1994 p. 47.

In summary, the reporting level of the internal audit department is one of the important determinants of the independence of the department, as it is suggested the ideal situation for the internal auditors' independence is to report to the highest level in their organisations.

2.3.1.5 The appointment and removal of the director of internal audit:

One of the main indicators for the objectivity of the internal audit departments is the process used for the appointment and removal of directors of internal audit departments. The Canadian Institute of Chartered Accountants (1997) explained that the status given to internal audit function in an organisation is an important determinant of the effectiveness of internal auditing.

To ensure the objectivity of internal audit department, the board of directors and the audit committee should approve the appointment and removal of the internal audit directors. The authority to appoint and remove the director of internal auditing remains as an important issue because it affects the independence of the internal auditor, therefore, it should be under the authority of the audit committee.

The Treadway Report 1987, suggested that the audit committee should review the appointment and removal of the internal audit director. Additionally, Read and Rama (2003) asserted that the objectivity of the internal audit function is enhanced when the director of internal audit department does not have any fear about dismissal because of the actions taken by the internal audit department. The authors suggested that audit committee involvement in decisions to dismiss internal audit director and provide access to the director of internal auditing will strength the internal audit department's objectivity.

However, Joseph and Raghunandan (1994) argued that the issues related to how directors of internal auditing are hired and fired and the levels and quality of support that organisations provide to the internal auditing function are continuing and critical ones for the profession. They investigated the authority of those involved in hiring and firing internal auditor directors by surveying 1000 internal auditor directors in Canadian Companies. The results indicated that audit committees are involved in appointment and removal decisions of internal auditors in 33 percent and 38 percent of companies respectively. The result of the analysis suggested that an internal auditor's position within an organisation would be strengthened if internal auditors have unrestricted access to an effective audit committee.

Likewise, Raghunandan et al. (1998) investigated if there is an association between audit committee's involvement in decisions regarding the dismissal of directors of internal auditing and the committee's accounting and auditing knowledge level in Canadian manufacturing companies. The result showed that only 48% of the study sample reported that audit committees were involved in these decisions. They concluded that involvement of audit committees in the decisions of hiring and removal of directors of internal audit will strengthen their independence. The study indicated that the knowledge level of audit committee in terms of accounting and auditing knowledge have no significant effects in the appointment and removal decision of internal audit directors.

2.3.1.6 Internal auditor's objectivity:

In exploring the concept of objectivity, Carmichael et al (1996) explained that objectivity is a state of mind, a quality that lends value to a member's services. It is a distinguishing feature of the profession. The principle of objectivity imposes an obligation to be impaired, intellectually honest and free of conflict of interest.
While Andrew (2003: 235) defined objectivity as "a state of mind in which biases do not inappropriately affect assessments, judgements, and decisions".

Additionally, The Institute of Internal Auditors' Code of Ethics mandates that the internal auditors maintain objectivity: "Internal auditors exhibit the highest level of professional objectivity in gathering, evaluating and communicating information about the activity or process being examined. Internal auditors make a balanced assessment of all of the relevant circumstances and are not unduly influenced by their own interest or by others in forming judgements" (IIA, 2000:2).
But Bazerman et al (1997) addressed a contrary point that it is psychologically impossible for auditors to be independent and objective because, even though an auditor having a high standard of competence, he can not ignore the pressure of management that have the power to hire and dismiss the auditor. It was noted by the authors that if the relationship between the auditors and management is built upon honesty, the auditor can perform his work with satisfaction. If the relationship between the auditor and management is based upon the feeling of antagonism, pressures on auditors may threaten his independence and objectivity.
From the researcher's point of view, absolute objectivity of auditors is not possible, particularly in case of internal auditors. In Sudanese banks –according to the research result- the internal auditors reporting level is to the managing director of the bank rather than the board of directors.

2.3.1.7 The importance of objectivity:

Objectivity is a very important attribute that internal auditors should work for. It is considered as the key element of the effectiveness of the internal audit function. The Institute of Internal Auditors Standards (IIA) stressed the importance of both, the organisational independence of the internal audit function and the individual objectivity of internal auditors. On the individual level, internal auditors should have an impartial, unbiased attitude and avoid any possible conflicts of interest (IIA, 2004, Standard 1120). In the relationship between the internal controls, and internal auditors objectivity, the American Institute of Certified Public Accountants (AICPA) re-emphasised the need for professional objectivity when internal auditors evaluate the adequacy of their firms' internal control systems. The institute recognised that "internal auditors act as a separate, higher level of control to determine that the system is functioning effectively" (AICPA 1997, AU 322.03).

Furthermore, the Panel of Audit Effectiveness (2000, 62) stated that, "internal auditors must be objective with respect to the activity being audited".

Vinten (1999) suggested that each internal auditor should be objective and be in an independent position to be able to conduct judgements and present recommendations with impartiality. To enhance the internal auditors objectivity, the author suggested the following:

(1) The internal auditor should be free from any conflict of interest whether it is arising from personal or professional relationships.
(2) Internal auditors should not be affected by any undue influence of management that may restrict or modify their work performance or affect the auditor's judgement.
(3) The internal auditor should not compromise his objectivity when auditing an activity for which he has had authority or responsibility.

In discussing the same issue, Driessen and Molenkamp (1993) suggested that for organisations to derive maximum advantages from internal audit, management should consider the following:

(1) The internal audit department should have an independent position in the organisation.
(2) The department should report to the highest level in the organisation.
(3) There should be an adequate following up to ensure that the recommendations are implemented.

Goodwin and Yeo (2001) examined two factors that may affect the independence and objectivity of internal auditors. The first factor, affecting the organisational independence of the internal audit function, and is its relationship with the audit committee. The second factor is the use of the internal audit function as a management training ground. They surveyed the internal audit directors in 65 listed and unlisted companies in Singapore to establish current practice in these areas and to identify the relationship between these variables. Regarding the relationship with the audit committee, the study found that there is a strong relationship between the existence of the audit committee and the internal audit functions. Furthermore, the level of interaction will be greater when the audit committee is composed of independent directors.

Some researchers have examined the relationship between internal auditing practices and threats that internal auditors encounter. Ponemon (1991) conducted an experiment using a sample of 54 internal auditors to examine the beliefs of internal auditors regarding the disclosures of fraud to members inside the organisation or to the public at large. The study used three determinants that affect the internal auditor's objectivity; these were the internal auditor position within the organisation, relationship with management, and the reporting level of internal auditors. The result suggested that the internal audit directors believe that the disclosure of fraud is unlikely, especially if this action leads to firing the director of internal audit. Disclosure through external channels (press) is highly disliked. The study found that internal auditor position within the organisation (organisational status) does not affect the disclosure decisions.

However, internal auditors perform many functions regarding internal control systems, and these may include assisting in designing of the control system that they audit. It is argued that this situation may impair the independence of internal auditors. Regarding this issue, Plumlee (1985) investigated the effects of auditor's roles in the internal control design. The study investigated whether memory or attribution biases affect judgements of internal auditors in reviewing their own work. With regard to the effect of memory, the study found that, first: the internal auditor who reviewed his own work will be better able to identify the strengths of the system. Second, internal auditors who were familiar with the type of the system under review (but who did not review their own systems) appeared to be better able to identify weaknesses in the system. Third, an internal auditor who was not familiar with the type of system being reviewed apparently had little ability to organise general knowledge to interpret the specific context. (p. 698).

Harrell et al (1989) examined the management's ability to bias the professional objectivity of internal auditors by surveying 58 internal auditors –members/not members of IIA- working in three banks as participants to examine the question: Can firm's management bias the professional objectivity of firm's internal auditors? The results indicated that management have been successful in biasing the professional objectivity of the participants who were IIA non-members. Internal auditors, IIA members resisted management's efforts to bias their evaluations.

As discussed earlier in this chapter the responsibility of management is to design and implement the internal control system. The responsibility of internal auditors is to evaluate and monitor the system. When internal auditors conduct an audit, they should not allow their objectivity to be impaired when auditing an activity for which they have had authority or responsibility. However, conflict of interest is one of the problems that face internal auditors. For example, internal auditors may participate in designing an internal control system. This issue was discussed by Church and Schneider (1992) who argued that sometimes-internal auditors might participate in the design of a particular internal control system and may be reluctant to find fault within the system. They suggested that one of the threats to the objectivity is the performance of duties that conflict with the internal audit role.

The existence of a professional Code of Ethics may reduce the likelihood of serious conflicts of duty and conflicts between duty and self-interest. Reynolds (2000:122) stated "one purpose for the code of ethics is to provide guidance for the resolution of conflict". Internal auditors as employees in an organisation are facing possible conflict of interest while performing their profession. To overcome the ethical conflicts, it requires that internal auditors recognise the sources of problems. Stanford (1993) suggested four sources of guidance. These are:

- The Institute of Internal Auditors Code of Ethics.
- The Institute of Internal Auditor's Standards for the Professional Practice of Internal Auditing.
- Consultation with peers.
- The Institute of Internal Auditor's position paper on Whistle-blowing.

2.3.2 Part two: Competence of internal auditors:

2.3.2.1 The concept of competence:

Jessup (1991:25) defined competence as "The ability to perform to recognised standards". He extended his definition by defining the occupational competence as "A person described as competent in an occupation or profession is considered to have as the repertoire of skills, knowledge and understanding which he or she can apply in a range of contexts and organisations"

In the area of accounting, in one of the most recent definitions, the International Federation of Accountants (IFAC) Education Committee defined competence as "The ability to perform the tasks and roles expected of a professional accountant, both newly qualified and experienced, to the standard expected by the employers and general public" (cited in Palmer et al 2004:890).

In the case of internal auditors, competence is a very important issue, so it is essential that internal auditors be competent in planning and conducting the audit assignments. Internal auditors should be able to collect, analyse, interpret, and document information in order to support their results. Sawyer (1982) argued that internal auditors should meet the following specific standards to keep their competence:

- Internal auditors should be supervised from the planning of the audit work till the conclusion of the audit, in other words, the director of the internal audit department should closely supervise his staff.
- Audit work should be documented in the audit working papers.
- Working papers should contain evidence of following-up and disposition of deficiency findings.
- Audit reports should be supported by competent, sufficient, and relevant evidence in the working papers.
- Working papers should be retained for a certain time.

2.3.2.2 Competence of internal auditors:

For the purpose of this research, the term used in this section is professional competence rather than professional proficiency. In highlighting the concept of professional skills and competence, Siddiqui and Podder (2002) explained the concept of professional skills and competence in that the auditing profession must include a wide range of technical skills. As a result, the auditor must be qualified to understand the criteria used and competent to understand the amount and types of evidence used to reach the proper conclusions.

However, the International Standard of Internal Auditing (Proficiency Standard) explained that audits should be performed with due professional care. The standard includes a lot of explanatory statements. Some of these statements are concerned with internal auditing department staffing, knowledge, skills and disciplines, and supervision and standards related to internal auditor compliance with standards of conduct, knowledge, skills and disciplines, human relations and communications, continuing education and due professional care (Standards of Internal Auditing, Professional Proficiency Standards; 2004).

In the USA SAS No.65 (AICPA, 1997, p. AU 322) explained that the competence of internal audit department is dependent on a company and its internal audit department's operations, procedures, and the quality and quantity of supervision available in the internal audit department.

For the success of the organisation control environment, the internal audit department must not only obtain the required qualifications but must also be seen by others employees in the organisation that the department obtains it. Thus, competence and educational background are important factors that enable the internal auditors to carry out their work competently. The internal audit staff, senior or junior, should be equipped by the required professional competence in applying the internal auditing standards, procedures and techniques and update their professional competence throughout the continuing education programs.

In increasing the competence of internal audit staff, Engle (1999:67) explained that maximising the internal auditor competence should be one of the top priorities of any organisation. The author categorised the most important benefits that will be realised from competent internal audit staff:

(1) The staff will be able to conduct useful audits that effectively contribute to the achievement of the organisational goals.
(2) Internal auditor's competence will assist in the reliance decisions of external auditors to use the work of internal auditors, leading to a potential reduction in the cost of external audits.
(3) Internal auditors who are familiar with the organisation under audit are on an ideal position to provide information about the financial statements. As a

result, disagreement between the external auditors and management regarding the application of accounting principles can be decreased.

Regarding the competence of banks internal auditors, the Basel Committee on Banking Supervision (2000) suggested that the professional competence of internal audit departments in banks as well as their motivation and continuing training are very important for the effectiveness of the internal audit department. Professional competence must be assessed taking into account the nature of the role and the auditor's capacity to collect information, to examine, to evaluate, and to communicate (8-23, the Basel Committee 2000).

The Basel Committee Survey (2001) identified some ways to maintain the professional competence of internal auditors:

- On-the-job-training.
- Formal internal and external training.
- Rotation of internal auditors within the internal audit department.
- Encouragement of internal auditors to become qualified Certified Internal Auditors.

The survey results suggested that professional competence of a bank internal audit department's staff, particularly, their knowledge and experience will help the department's staff to investigate in all areas in which the bank operates.

The following sub-sections will discuss the attributes that may increase the competence of internal auditing staff. These attributes include; Certification Programs of internal audit staff, staffing and qualifications required for internal auditors and the effect of training programs for internal auditors on their competence.

2.3.2.3 Certification programs of internal auditors:

Taking into the consideration that the complex environment in which the businesses operate, therefore, it is important to monitor corporate activities, including internal controls.

Internal auditors, as specialists in the area of internal controls, are playing an important role in maintaining and monitoring the internal control system.

It is suggested that existence of qualified professional internal auditors will strengthen the internal audit function (Felts 1994).

However, many programs were designed in many countries (USA, UK, Canada, ... etc.) to improve the quality of internal audit professionals. One of these programs is the Certified Internal Auditor (CIA) in the USA. This program has started in 1975 by the Institute of Internal Auditors. According to this program an individual must obtain BSc degree, passed the professional examinations, obtains experience in the auditing profession, be committed to IIA's Code of Ethics, and completed the required continuing professional development programs (Myers and Gramling 1997).

Very few researches have investigated the benefit of CIA in their organisations. In this area, Agrawal and Siegel (1989) surveyed 2012 certified internal auditors involved in corporate accounting to investigate to what extent does CIA certification enhance the stature and help the professional advancement of internal auditors. With a response rate of 68%, the results indicated that "although internal auditors took the CIA for the professional advancement and rate it highly, in the world of work their expectations were not fulfilled to any great extent, either in terms of their own feelings, or in the actions of their employers as manifest in promotion" (Vinten 2004:3). It is found that CIAs without the Certified Public Accountant CPA or a master's degree felt more positive about this than those with a CPA or higher degree.

Myers and Gramling (1997) surveyed 200 directors of internal audit, chief finance officers and board of directors members to investigate the perceived benefits of CIA designation and if it is important for personal development within the internal audit department. The results indicated that CIA designation is indicative of a significant level of competence, moreover, CIA designation is considered to be an important factor for advancement within the internal audit department and for mobility to internal audit positions in other organisations.

2.3.2.4 Internal auditors' qualifications and recruitment:

Stearn and Impey (1990) argued that recruitment of internal audit staff requires the following actions that should be taken by the director of internal audit department:

1- Clear job descriptions:

Each position in the internal audit department should have a written job description that shows the scope of internal audit work and the level of responsibility accompanied by the requirements for performing the work. The job description should clearly communicate the status and the standards of experience expected to perform the job satisfactorily.

2- Establish a policy for qualifications:

It is essential for the internal audit department identify its need for qualified staff. However, accounting, administrative, and internal audit professional bodies offer qualifications which require a period of training, examination and experience that covering the areas of knowledge needed for the internal audit work. Examples of these bodies are the Institute of Internal Auditors in the UK and the USA.

3- Establish a policy for experience:

Experience is an important factor for the internal audit function. According to the authors, the experience needed by internal audit staff can be classified as follows:

- Organisational experience that requires knowledge of the auditee's regulations, organisation structure, customers, suppliers and products.
- Professional experience of internal auditing techniques and other skills related to the profession.
- Experience in communication skills.
- Management experience that allows internal auditing staff to plan and take managerial decisions.
- Clerical and administration experience in office routines, methods and procedures.

The authors concluded that the department's effectiveness is heavily related to the numbers and qualifications of the staff and the size of the internal audit department.

2.3.2.5 Internal auditors training:

Like any other department in the organisation, an internal audit department may need to organise complete training programs for its staff to increase the competence of the department's performance.

In Beardwell and Holden (2004:336) training is defined as "A planned process to modify attitudes, knowledge or skill behaviour through learning experience to achieve effective performance in an activity or range of activities. Its purpose, in the work situation, is to develop the abilities of the individual and to satisfy the current and future needs of the organisation".

Audit staff are expect to know more and to be more skilled. Training has many benefits to internal auditors and their organisations, for example Espersen stated, "Training builds confidence and self-esteem and increases the knowledge and skills necessary to do a professional job. It also offers great opportunities for networking. The certification training ensures commitment to the profession" (cited in Johnson 1991:142).

A few journal articles have directly discussed the internal auditors training issue, however, Johnson (1991) argued that there are many types of training for internal auditors, he summarised the following types:

External Training: in this type, internal auditors are sent off-site to attend training sessions provided by professional training organisations such as the Institute of Internal Auditors, accounting firms and other accounting bodies. It is suggested that these institutions offer courses ranging from basic audit skills to management and technical training

On-site Training: this type is known as in-house training, this type provides the opportunity to internal audit staff in the department to attend the training sessions, so everyone in the department will hear the same message. The main advantage of this training is the low cost.

Internal Training: some organisations develop their own training programs. It is argued that this type of training can be cost-effective if the organisations have the expertise and time to develop its own training manuals and to address the required topics.

Recently, Pickett (2000) suggested four training strategies for internal auditors. First, encourage students to take professional examinations and train them how to pass exams. Second, send internal audit staff to external seminars. Third, transfer knowledge from experienced senior staff in the organisation to non-experienced internal auditors, the effectiveness of this method depends on the extent to which the experienced staff are good communicators. Fourth, rely on experts.

The Basel Committee (2000:8-28) explained that professional competence should be maintained by through systematic continuing training of all the members of the internal audit department of the bank. All staff members should have sufficient up-to-date knowledge of auditing techniques and banking activities.

2.3.3 Part two: Work performance of internal auditors:

2.3.3.1 The concept of work performance:

This part will cover issues related to the work performance and monitoring of the internal control system by internal audit staff, as monitoring of the internal control system is considered to be the most important function performed by internal auditing staff in Sudanese banks (Abdelrahim 2005).

In general, the Performance Standard includes six main sub standards; managing internal audit activity, nature of work, engagement planning, performing the engagement, communicating results and monitoring progress (Professional Guidance of SPPIA 2004). This section will discuss work performance of internal auditors in general, the internal audit charter as it describes the objectives and scope of the internal audit function, and finally to discuss in detail the role of internal auditors in monitoring the internal control system and other governance issues.

With regard to the internal auditors work performance issue, Chambers (1992:12) mentioned that the audit scope should be tailored according to the internal auditing unit's resources. If it is too broad, it may jeopardise its independence. He added that "restrictions upon the scope of internal audit may also of themselves impair audit independence".

The internal auditors' role in control and governance is clarified in the Nature of Work Standard 2100 (IIA 2004) that explained that the internal audit activity should evaluate and contribute to improve risk management, control, and governance processes using a systematic and disciplined approach.

Work performance involves internal auditors in planning their audits, examining and evaluating information, communicating results and following up. The Engagement Planning Standard 2200 (IIA 2004) requires internal auditors to develop and record a plan for each engagement, including the scope, objectives, timing and resources allocation.

It is suggested by the standard that internal auditors should develop working programs to achieve the engagement objectives (Standard 2240). The same standard requires internal auditors to establish the procedures for identifying, analysing, evaluating, and recording information during the audit engagement. The work program should be approved before its implementation.

In practice, work programmes should be supported by effective audit working papers. Ratliff et al (1988:195) argued that working papers perform many functions that are important to successful audits:

1. Working papers document and organise the accumulated evidence that assists in preparing the audit report.
2. They provide reference during the course of the audit that assists in planning information and provides a body of evidence.
3. They can be used as a reference for following-up audits.
4. They can be used to evaluate the overall performance of the audit teams and individual internal auditors.

In highlighting the importance of working papers, Haron et al (2004) explained that Due Professional Care refers to whether internal auditing is properly planned, supervised, reviewed and documented. It is suggested that there should be adequate audit manuals, work programs and working papers.

Principle 11 of the Basel Committee Recommendations (2000) stated that "Internal audit includes drawing up an audit plan, examining and assessing the available information, communicating the results, and following up recommendation and issues".

The principle highlighted different types of audits that include; financial audit, compliance audit, operational audit, and management audit. However, regarding audit assignments, it was suggested that an audit programme should be prepared for every audit assignment. The audit programme should describe the objectives as well as the outline of the audit work that is considered necessary to achieve them. All audit procedures should be documented in working papers to reflect the work done. The working papers should be informative in terms of sufficient information and to check the manner in which it was performed (Basel 2000, Para 42 & 43).

In evaluating work performance by external auditors, Liu et al (1997) mentioned that external auditors might conduct a separate external evaluation for the work of internal audit department, rather than the examination of the audit report and supporting working papers. The Statement of Auditing Standard SAS 65, Auditor's Consideration of Internal Audit Function explained that internal auditors' work may affect the auditors' procedures. The external auditor should perform procedures to obtain sufficient, competent, evidential matter to support the auditor's report.

Furthermore, evidence obtained through the external auditor's direct personal knowledge such as observation, computation, physical examinations and inspection are more valuable than information obtained indirectly (SAS 65, section 322).
Al-Twaijry et al (2004) in their study in the relationship between internal auditors and external auditors in the Saudi Corporate Sector examined the access to each other's working papers (internal and external auditors). The study found that the external auditor's access to internal auditor's working papers was a common issue (80%). In the case of external auditor's working papers, only (25%) made their working papers available to internal auditors.
The Performance standard requires the director of the internal audit department to manage effectively the internal audit activity to ensure it adds value to the organisation. The internal auditor should examine and evaluate the adequacy and effectiveness of an organisation's system of control and the quality of performance of assigned responsibilities.

<u>2.3.3.2 The internal audit charter:</u>

Zhang (1999:42) defined the internal audit charter as "a document that embodies the spirit of the contract binding the audit committee, senior management, and the internal audit function". An internal audit charter should establish the objectives and scope of the internal audit function, its position within the organisation and the accountability of the head of the internal audit department.
The Basel Committee on Banking Supervision (2000) stressed the importance of the internal audit charter, the charter should be drawn up and reviewed periodically by the internal audit department. Most importantly, the charter should be approved by the management and approved by the board of directors of the bank.

The Importance of the Charter:
Principle 6 of the Basel Committee (2000) stated that "an audit charter guarantees the standing and authority of the internal audit department within the bank". However, the charter establishes at least the following:

- The objectives and scope of the internal audit function.
- The organisational status of the department, its power and responsibilities.
- The accountability of the head of the internal audit department.

The charter should be written and reviewed periodically by the internal audit department. For the credibility of the charter, it should be approved by the top management and authorised by the board of directors and its audit committee. However, Johnson (1986) argued that the internal audit charter is a very important element for the internal auditing department, and it provides the internal audit director with the authority to carry out the department's mission. In line with Johnson (1986), the Institute of Internal Auditors Standards, in the revised International Standards for the Professional Practice of Internal Auditing (2004), explained the importance of the charter as a document that identifies the activity's purpose, authority, and responsibility.

Furthermore, Burnaby, et al (1994), argued that in order for an internal audit department to be able to fulfil its objectives, there should be a formal internal audit charter. They conducted an international study which covered eleven countries with a sample of 123 internal auditors. In relation to the existence of an internal audit charter, they found that 67.5 % have formal charters.

Moreover, Peursem (2004) examined the internal auditors' role and authority in New Zealand. The study surveyed 244 internal auditors all of whom were Institute of Internal Auditor members. One of the research hypotheses tested was "the views of internal auditors operating under the authority of audit charters differ from those who do not". The results suggested that those with an audit charter identified the risk management support factor as significantly more essential than those without the charter.

Concluding from the above two studies, the existence of the audit charter supports the authority of the internal audit director and describes their responsibilities.

The Format of the Charter:

The most common format of the charter includes the following sections:
(1) Purpose and objectives: in this section, the charter should clarify the responsibilities of internal audit and its relations with top management and the board.
(2) Authority: the charter should clearly show the reporting relationships to ensure the department's independence as well as the objectivity of the staff.
3) Responsibilities: this section explains the scope of work and the coordination of work with other auditors.

However, Johnson (1986) surveyed 487 US corporations selected from the Institute of Internal Auditors Membership Directory. The purpose of the survey was to review the overall contents of each document. The survey showed that 73% of the sample included an authorisation date, while only 26% were signed and approved by management and the board of directors. Only 21% included a statement on fraud detection. Finally, 65% contained a statement regarding coordination of work with external auditors.

To conclude, the internal audit charter should describe clearly the mission, independence and objectivity, scope and responsibilities, authority, accountability and the standards of the internal audit function.

2.3.3.3 Internal auditors and internal controls:

In the last few decades, greater attention has been focused on the concept of internal controls. One of the most important reasons for that is the increase in the size and complexity of business organisations, in addition to the changing nature and scale of commerce and globalisation of business organisations that lead to huge transitions (Higson 2002). Another reason is the financial scandals during the 1980s and the 1990s, such as Enron and Maxwell, which forced the profession to attempt to improve global confidence in accountancy (Grant 2003). International developments in the area of corporate governance started with the publications of the Internal Control Integrated Framework by the Committee of Sponsoring Organisations of the Treadway Commission (COSO Report 1992) and finally the Sarbanes- Oxley Act 2002 in USA. In the UK it started with the Cadbury Committee in 1992 and culminated in the revised Turnbull Report in 2005. These reports played an important role in highlighting the concept of internal controls as a part of corporate governance. This part will discuss issues related to internal controls and discuss their importance in the context of corporate governance. The phenomenon of internal controls in the banking sector in Sudan appeared in the last 5 years in terms of reactivating the traditional methods of control and the recommendations of corporate governance committees.

2.3.3.3.1 The need and objective of internal controls:

The concept of internal controls has great importance in the literature of corporate governance. For example, in the professional literature, the Statement on Internal

Auditing Standards issued by the Institute of Internal Auditors in the USA, (SIAS) No.1 Control: Concepts and Responsibilities (1984) recognised the role of internal auditors in assisting the members of the organisation in how to discharge their responsibilities by providing them with information regarding the internal controls. According to the statement, one of the responsibilities of internal auditing is to evaluate the adequacy and the effectiveness of the organisation's system of internal control and the quality of performance in carrying out assigned responsibilities. Section two of the (SIAS 1, 1984), states that "the purpose of the review of adequacy of the system of internal control is to ascertain whether the system established provides reasonable assurance that the organisation's objectives and goals will be met efficiently and economically". Thus, section two of the Statement linked the existence of an adequate internal control system with meeting the organisational goals and objectives.

Power (2004:21) identified three factors that increased the need for internal control systems. First, organisations recognised the need for good internal control systems as a basis for reducing the organisation's risk. Second, internal control systems have become central regulatory strategies that attempt to work with the organisations' own systems. Third, new emphasis on internal control is a response to organisations' crisis and the collapse of their internal control systems (recently, Sarbanes-Oxley is an example of a response to the Enron scandal).

However, the board of directors and management have an essential role in developing the concept of internal controls to meet the organisational goals and objectives. The board of directors and senior management are responsible for establishing and maintaining an effective internal control process and for continuously monitoring the effectiveness of the internal control system. This is beside the participation of all individuals within an organisation. The Internal Control Resources Website (2005) (http://pw1.netcom.com/~jstorres/internalaudit/ic) listed the main objectives of the internal control process which can be categorised as follow:

- Safeguarding of assets (security objectives).
- Ensuring efficiency and effectiveness of operations (operational objectives).
- Ensuring reliability and completeness of accounting, financial, and management information (information objectives).

- Ensuring compliance with organisational polices and procedures as well as applicable laws and regulations (compliance objectives).

Majoor (2000) stated that the increased need for internal controls for business organisations accompanied by the increased number of national corporate governance reports and reforms that include recommendations for internal controls and reporting on internal controls. Corporate governance reports and their recommendations will be discussed in this chapter.

2.3.3.3.2 The definition of the internal control system:

The issue of internal controls has been seen as one of the most important elements of corporate governance in business organisations. Internal control has been defined in many studies and by the accounting professional bodies. This part will analyse the most recent definitions of internal control and show the differences and similarities of the definitions. In this aspect, Sarens and Beelde (2006) analysed and compared the definitions provided by the COSO Framework (1992) and Turnbull Report (1999) as the most recent definitions of internal control. In this study, the researcher will throw a light on the following definitions, the Chartered Institute of Management Accountants definition as a UK body and The Committee of Sponsoring Organisations of the Treadway Commission (COSO) (1992) and Sarbanes-Oxley Act (SOA) definitions (2002), as they are the most recent definitions in the USA.

The Chartered Institute of Management Accountants (CIMA) defined the internal control system as "the whole system of controls, financial and otherwise, established by management in order to carry on the business of the enterprise in an orderly and efficient manner, ensure adherence to management policies, safeguard assets and secure as far as possible the completeness and accuracy of the records. The individual components of the internal control system are known as controls or internal controls" (see Venables and Impey 1991:14).

The COSO Report 1992 defined the internal control system as "a process effected by an entity's board of directors, management and personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories; effectiveness and efficiency of operations, reliability of financial reporting and compliance with applicable regulations".

Arguing that the accounting failures in the USA (Enron and World Com), are the main reason for the issuance of the Sarbanes-Oxley Act in 2002. The new Act has defined the internal control over financial statements as "a process designed by, or under the supervision of, the registrant's principal executive and principal financial officer, or persons performing similar functions, and affected by the registrant's board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles". The definition includes the following principles and procedures that:

1. Pertain to the maintenance of records that in reasonable detail accurately and fairly reflected the transactions and dispositions of the assets of the registrant.
2. Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures are being made only in accordance with authorisations of management and directors of the registrant.
3. Provide reasonable assurance regarding the prevention or timely detection of unauthorised acquisition, use or disposition of the registrant's assets that could have a material effect on the financial statements. (Bonacorsa 2003:2)

Nonetheless, the above definition is one of the most recent definitions of internal control systems suggested in the literature of corporate governance. However, it can be argued that all of the definitions showed similarities that the systems of internal control include the elements of an organisation that support personnel to achieve the business goals and objectives. Arguing that the three definitions concentrated on the responsibility of management to establish and maintain internal control systems that achieves its objectives, it can be noted that the definitions given by the COSO Framework 1992 and SOA 2002 focused on the effectiveness and efficiency of operations that enable organisations to react to any risk, like the safeguarding of assets from inappropriate use or from loss or fraud, while the definition given by CIMA used the term (financial and otherwise) to ensure wider coverage of management responsibility of internal controls. Moreover, the above two definitions highlighted the role of internal controls in the quality of financial reporting.

2.3.3.3.3 The relationship between internal control systems and other control systems:

This section will review how internal control systems interact with other systems of control, like management, board of directors and external auditors, highlighting the importance of the internal control system for these systems of control. Maijoor (2000) questioned, "Are these complimentary control mechanisms or are they substitutes for internal control systems?" In the literature of corporate governance, it is suggested that they all should be in place to provide proper corporate governance.

2.3.3.3.3.1 The importance of internal controls to management:

A system of effective internal control is an important component of an organisation's management and a foundation for its safe and sound operations. The existence of effective internal controls can assist in ensuring that the aims and objectives of an organisation will be met. This system will provide assurance that the organisation will comply with regulations, laws, policies, plans and internal rules (Steinthorsdottir 2004).

In the professional literature, most of the committees' reports on corporate governance stressed the important role of the management of organisations in the area of internal controls and its responsibility towards that, for example, The Committee of Sponsoring Organisation, COSO (1992), Cadbury Committee (1992), the Hampel Committee (1998), the Turnbull Guidance 1999 & 2005 and Sarbanes-Oxley Act (2002).

In May 2000, the Hungarian State Office hosted the Second International Conference on Internal Controls. One of the main issues discussed in this conference was the responsibility of management in establishing and maintaining an adequate internal control system and the evaluation of control risk. The conference discussed the relationships between the internal and external auditors and the management in establishing and maintaining effective internal control systems (Bonnell 2000).

However, many studies examined the importance of internal controls to management. For example, Badawi et al (2003) addressed the responsibilities of management for internal control issues, arguing that management are responsible for having an effective internal control system and ensuring that the internal control system is understood and respected within the organisation. Management should have reasonable assurance that the system of internal controls is able to prevent or detect any significant inaccurate, incomplete and unauthorised transactions. The system should be able to indicate any deficiencies in the safe guarding of assets and deviations from laws, regulations, and the organisation's policies. In line with Badawi et al (2003) Sarens and De Beelde (2006) mentioned that the role of management is to evaluate the risks –risk management- and establish, operate and monitor the internal control system.

The Institute of Internal Auditors conducted a survey in (2003) to review internal control practices developed since the issuance of Sarbanes-Oxley Act (one year after). The survey found that, 63 percent of large publicly owned companies used the COSO framework for internal controls to support Chief Executive Officers (CEO) and Chief Financial Officers (CFO) certifications on internal controls (cited in Vallario 2003).

From the point of view of cost-effectiveness of internal controls, the management control system is considered to be one of the most important components of the management functions. Hanuum (1974), identifies four important elements in control systems with a direct relation to the question of cost benefit analysis; the value of a process which is under control, the value of a process which is out of control, the cost of reporting and the cost of corrective action (cited in Noy 1999). It can be argued that corporate managements have incentives to develop a cost-effective system of internal controls in terms of cost and time. Effective internal control systems assist external auditors to rely on them. As a result, reliance on internal controls by external auditors will reduce the cost and time of audits and save the organisation's resources. To conclude, the cost of implementing a specific control should not exceed the expected benefit (Kinney and Maher 1990 and Noy 1999).

2.3.3.3.3.2 The importance of internal controls to the board of directors:

One of the main tasks of the board of directors is to ensure that the system of internal controls is functioning well. This system should be reviewed from time to time to ensure its effectiveness. The revised Turnbull Report (2005) D 15, stated that the board of directors is responsible for the company's system of internal control. The board should set appropriate policies on internal controls to ensure that the system is functioning well and the system of internal control is effective in managing those risks. In establishing an effective board of directors, Weir and Laing (2001) explained that the Cadbury (1992), Greenbury (1995) and Hampel (1998) Reports stressed the transparency and accountability in areas such as board structure and operation, directors' contracts and the establishment of board monitoring committees. The reports focused on the importance of the non-executive directors' monitoring role. In line with the recommendations of the corporate governance reports in the UK, McInnes and Stevenson (1995) argued that it is one of the responsibilities of the board of directors to ensure that a reasonable system of internal controls has been established and maintained. The Research Committee of the Institute of Chartered Accountants of Scotland (ICAS) (1999), in its discussion document "Auditing into the Twenty-First Century" proposed that the board of directors should have a reasonable assurance that the management information system and internal control system are reliable and relevant (Mc Innes 1999).

Weir and Laing (2001) examined a sample of 320 UK companies to analyse to what extent these companies comply with key parts of the Cadbury Report to examine the link between governance structures and corporate performance and to evaluate the remuneration committee characteristics and performance. The study found that there has been widespread compliance with the committee's concept of appropriate monitoring mechanisms and there is no clear relationship between governance structures and corporate performance.

Most of major companies in Europe and USA established audit committees as a result of the recommendations of Cadbury and other committees. Since the establishment of audit committees, they play an important role as a corporate governance mechanism to monitor management, the external auditor and the internal auditor to protect the shareholders' interest.

To conclude, the board of directors is responsible for the company's system of internal control. It should set appropriate polices on internal control and seek regular assurance that will enable it to satisfy itself that the system is functioning well. The board must further ensure that the system of internal control is effective in managing risks in the manner that it has approved.

2.3.3.3.3.3 The importance of internal controls to external auditors:

Internal auditors as a part of a management supervisory system have an important role in the monitoring of internal controls. External auditors as an independent body of an organisation should satisfy themselves that there is well-designed internal control system and accordingly they should state their opinion on the internal controls. However, the standard audit report (IFAC, 1999) must explain that audits are designed to provide reasonable- not absolute- assurance that the financial statements are free of material misstatement due to fraud or error. The reporting standard should describe the extent to which the external auditor has reviewed and evaluated the internal control system (IFAC, 1999). Therefore, the external auditor plans and conducts the audit depending on the strength of the internal control system. Consistent with auditing standards, Bierstaker (2003) suggested that external auditors should obtain an understanding of internal control to determine the nature, timing and extent of auditing tests. The role of external auditors regarding the internal control issues is very critical. Any weaknesses should be reported to an appropriate level. In this respect, the British Statement of Auditing Standards (SAS 610), "Reports to Directors or Management" stated that "Auditors should consider the matters which have come to their attention during the audit whether they should be included in a report to directors or managers". Therefore, any significant weaknesses in a client's accounting and internal control system should be reported to directors or an appropriate level of management and on a timely basis. With regard to the issues included in management letters, Manson, et al (2001), examined the issues raised in management letters, assessed the value of management letters to unlisted companies and evaluated the value of management letters to the external auditors. The study found that the issues most frequently raised in management letters related to internal controls and accounting system issues. The other issues included in the report are taxation and business advice matters. Other findings show that "auditors considered that the most important benefit of the management letter to themselves was its potential for enhancing client's perceptions of the auditor" (Manson, et al 2001:549).

External auditors should evaluate the reliability of a client's internal control structure to develop an effective audit approach. Testing this issue, O'Leary (2004) examined the consistency of external auditors in evaluating internal control structures by using two different evaluation methods: their current firm's evaluation procedures (include control environment, information system and control procedures) and a structured matrix model of evaluation (include 8 items of evaluation). The study found that the 94 external auditors from 5 different audit firms conducted the same evaluations by using the two different evaluation methods and demonstrated a satisfactory level of consistency. It can be argued that this result offers some support to the principle that the auditing profession should continue to be self-regulating.

In the working relationship between internal and external auditors in the area of the internal controls, Chan (1998) argued that internal auditors and external auditors have the same objectives but the difference is that the internal auditors are employees of an organisation and responsible to management, and as a result they lack independence. External auditors are more independent and responsible to shareholders, but both are interested in effective internal controls.

2.3.3.3.4 Management reports on internal controls:

Management is responsible under s. 221 of the UK Companies Act 1985, for establishing and maintaining adequate accounting records, monitoring the system and reporting to the board on the effectiveness of the controls. The issue of reporting on the internal controls has been of considerable interest to the accounting profession. In the UK, the Cadbury Report (1992) explained that directors are responsible for establishing and maintaining adequate accounting records, therefore, effective internal control system is a key aspect of the efficient management of a company. As a result, the Cadbury Committee recommended that, the directors should make a statement, in the annual accounts, on the effectiveness of their system of internal controls. The Guidance for Directors on the Combined Code states that the board of directors should report on the internal controls and disclose that there is an ongoing process for identifying, evaluating and managing the significant risk faced by the company.

In the USA, in line with the Cadbury Committee recommendations, the Board of Directors of the American Institute of Certified Public Accountants (AICPA) (1993) went further on this issue and suggested that management should prepare a report on the internal controls. Moreover, it is recommended that the external auditors express an opinion on management's assertions. The Board believe that external auditors and management involvement in the internal controls would improve the quality of financial reporting. The COSO Report plays an important role in presenting a framework that allows an understanding of internal controls among interested parties. The report specified control criteria and suggested tools to assist management in evaluating internal control and in improving the control of the entity. Moreover, the COSO Report offers guidelines and models that assist in preparing reports on internal control (COSO Report 1992).

It is suggested that the principal reasons for including the management report in the annual reports is to inform investors about the roles of management and board of directors in the financial reporting process (Willis and Lightle 2000).
Some recent studies have been carried out in this area, for example, Raghunandan and Rama (1994) analysed the 1993 annual reports of Fortune 100 companies and found that 80 of the 100 companies included some form of management report that included reports on the internal control system in their annual reports. Only 6 of the 80 companies provided indications that internal controls were effective as suggested by the COSO Report. The study found that most of the reports were focusing on the existence of an internal control system as opposed to the effectiveness of the system.
McMullen, et al (1996) examined the association between financial reporting problems and management reports on internal controls in audited financial statements. The study compared a sample of companies with financial reporting problems with a sample of companies without such problems and examined whether the problem companies were less likely to have had management reports on internal controls. Results indicate that smaller companies with financial reporting problems were less likely to have management reports on internal controls. It is noticed that in the absence of mandatory requirements for management reports on internal controls, some companies voluntarily include such a report.
Gist et al (2004) surveyed the users and preparers of the auditor's internal control report (ICR) over financial accounting information to assess the similarities and differences regarding the readability of the ICR, the reliability of the financial statements, and the potential increase in auditor's legal liability. Regarding readability, results indicated that there are differences in the perception of the two groups. In terms of reliability, both groups agreed that a company's internal control structure could detect any errors or misstatement. Finally, auditors perceived their legal liability higher than the users.

The contents of the management report:
Wallace and White (1994), Aldridge and Colbert (1994), introduces broad categories of information that should be covered in the management report on internal controls, it includes the following:

Relevant controls:

These controls should be of relevance to the board of directors. They include controls associated with achieving effective operations, reliable financial reporting and compliance with laws and regulations.

Time frame:

The management report should indicate the date and period of time for which management's assertions are made.

Material weaknesses:

The management report should include a disclosure of material weaknesses as well as any corrective action taken or planned.

Internal auditing process:

" The frame of reference used in planning the internal auditing process and assessing internal control adequacy, including the process of aggregating individual audits to form an overall opinion, needs to be communicated" (Wallace and white1994:2).

Scope and findings:

The report should clearly specify the scope and findings and identify its inherent limitations.

As experts on internal controls, internal auditors have a critical role to play in the processes to issue these reports.

2.3.3.3.5 Main bodies affecting the concept of internal controls:

As mentioned in section 2.5.3, many institutions and committees participated to develop the concept of internal controls in the context of corporate governance. A number of committees of corporate governance were established in the 1990s and the beginning of the new millennium in the UK, in the USA and more recently in South Africa. The series of collapses such as Maxwell Communications in 1991, Bank of Credit and Commerce International (BCCI) 1991, Barings Group in 1995 and Enron in 2001 is the main reason for establishing these committees. There were criticisms raised by the public regarding the quality of financial reporting, internal controls and external auditors. In this aspect, Steinthorsdottir (2004) mentioned that these scandals raised many questions from governments, institutional investors, employees and the general public about the role of managements, boards of directors, internal and external auditors and audit committees. The next part will review the literature concerning the roles and responsibilities of institutions and committees regarding internal controls in South Africa (the first country in Africa to establish a committee to review corporate governance issues), the USA, and the UK. In general, recommendations of these institutions and committees were applied in many countries around the world. In Sudan, as it was observed by the researcher that a number of medium size and large companies and financial institutions are implementing or on their way to implementing the recommendations of committees of corporate governance such as the Cadbury committee and Basel recommendations in case of the banks.

2.3.3.3.5.1 King Committee on Corporate Governance (South Africa):

In South Africa (2002), the Institute of Directors took the lead in South Africa on the issue of improving corporate governance. The King Committee on Corporate Governance investigated corporate governance issues to promote the highest standards in managing businesses. In section 2.4 the committee suggested that non-executive directors should have the necessary skills and experience on the issues of strategy, performance, resources, transformation, diversity and employment equity, standards of conduct and evaluation of performance.

Regarding the internal controls, the report encouraged companies to develop a comprehensive system of control to ensure that risks are mitigated and the company's objectives are attained. Furthermore, the control environment should also set the tone of the company and cover the ethical values, management's philosophy and the competence of employees. The committee stressed that a documented system of internal controls and risk management is essential. Coetzee (2004:29) argued that the King Report considered that control and risk are the responsibility of management and the board of directors, although internal auditors provide guidance and are involved in the control process.

2.3.3.3.5.2 The Committee of Sponsoring Organisations (USA):

In the USA, the Committee of Sponsoring Organisations (COSO) of the Treadeway Commission issued one of the most important reports in the area of internal controls. The report is named the Internal Control-Integrated Framework. This report defines internal controls and describes a framework for internal controls. The COSO report consists of four volumes:

- An executive summary that highlights the overall conclusions of the report.

- A framework that establishes common definitions and criteria to assess the internal controls.
- Reporting to external parties regarding the financial reporting objectives of internal controls, which present new guidelines for publicly reporting on the effectiveness and adequacy of internal control systems.
- Evaluation tools, which provide guidance for evaluating the effectiveness of internal control systems. (Internal Control-integrated Framework 1992).

It can be argued that the COSO report highlights detailed guidelines and gives practical suggestions on methods of testing the internal control systems and assessing their effectiveness.

Many previous studies explored the role of the COSO report in evaluating the internal controls. For example, Bishop, et al (1992) explained that the COSO report played an important role in evaluating internal controls that concentrate on the need for public reporting on internal controls. According to Bishop (1991), the COSO report provided a broad concept that aims to help the management of businesses to improve control over their organisation's activities.

Rezaee (1995) argues that, the COSO report re-emphases the importance of the internal control system and the role of internal auditors in achieving the objectives of an organisation, in order to ensure that reasonable corporate governance and strong financial reporting are in place. Other studies analysed the components of the COSO Report, (Aldridge and Colbert 1994) and (Martin and Engvall 2003) explained that, the Integrated Framework of Internal Control described by the COSO report consists of five components of controls; control environment, risk assessment, control activities, communications and information, and monitoring. It is argued that, these five elements replaced the traditional one element – control activities - (Crawford 2000). The following sections will discuss the contents of the COSO Report in detail, as it was defined by the report and link them to the relevant studies and standards in this area.

1- Control environment:

Aldridge and Colbert (1994) argued that in assessing the internal control system of any organisation, it is very important to understand the control environment. They highlighted the most important factors related to the control environment, such as the integrity, ethical values and competence of employees and management.

To explore the concept of the control environment from an accounting body point of view, the AICPA (1995) suggested that the control environment represents the collective effect of various factors on establishing, enhancing or mitigating the effectiveness of specific polices and procedures (AICPA 1995, AU 319.09).

Likewise, the Committee of Sponsoring Organisations of the Treadeway Commission framework (1994) in its definition of the control environment concentrated on the human factor (people) in the process of control. According to this view, it defined the control environment as "the control environment sets the tone of the organisation, influencing the control consciousness of its people. It is the foundation of all other components of internal control, providing discipline and structure. The control environment includes the integrity, ethical values and competence of the entity's people; management's philosophy and operating style; the way management assigns authority and responsibility, and organises and develops its people, and the attention and direction provided by the board of directors".

Furthermore, Rezaee (1994: p.2) defined the control environment as "the atmosphere created by the board of directors and management in which people conduct their activities and carryout their responsibilities". Thus, the control environment provides the environment in which employees conduct their activities and carry out their assigned control activities. Hence, the majority of the committees and researchers addressed the importance of the control environment as an important factor for the internal control system.

2- Risk assessment:

Risk assessment is a cornerstone in the effectiveness and success of the internal controls of any organisation. Therefore, there is a growing interest in exploring this term by different parties such as internal and external auditors, and management.

In defining the concept of risk management, Bedford (1997: 42) gave two definitions of risk, the first one as "the probability of a hazard happening, its severity and frequency. This incorporates any gain or loss which can occur from unanticipated future events". The second one was "the gain or loss which can occur from unanticipated future events" (p.42). She argues that, risk assessment should also identify the threats to any parts of the organisation and the potential impact which

may arise there from. From the researcher's point of view, all of the control mechanisms in an organisation (internal and external auditors, management, and board of directors) should play their role in risk management to prevent their organisations from any losses. McNamee (1998) explained that risk assessment is a method of identifying, prioritising and measuring risk. It is argued that risk management is the process of determining whether or how much of the risk is acceptable and what actions should be taken in order to avoid, to share or to control the risk. Colbert (1995) studied the impact of risk assessment for internal auditors and external auditors based on the Statement on Internal Auditing Standards (SIAS) 9 "Risk Assessment" and Statement on Auditing Standards (SAS) 47 "Audit Risk and Materiality in Conducting an Audit". However, for internal auditors, Colbert concluded that risk assessment includes evaluating and combining judgements about risk factors and adverse conditions. For external auditors, a risk assessment process is used to outline the nature, timing and extent of audit procedures to be performed.
Allegrini and D'Onza (2003) surveyed the "top 100" companies listed at the Italian Stock Exchange, investigating an overall view regarding the state of the art of internal auditing in these companies, specifically focusing on the risk assessment practices and on the execution of a risk-based approach in the audit process. The study found that 25% of surveyed companies do not implement the COSO framework in their audit process (only compliance audits). In 67% of the companies, internal auditors try to incorporate the COSO model and perform only operational auditing, and make use of risk assessment findings in planning the annual schedule of audits (macro level). Only 8% of companies applied a risk based approach both at macro and micro level.

3- Control activities:

Control activities should be seen throughout the organisation, at all of the levels of management and in all activities. Rezaee (1995:6) defined the control activities as "the policies, procedures, and rules providing reasonable assurance that internal control objectives are carried out properly and risks are being managed effectively".
Furthermore, Chambers et al (1990:47), stated that, "controlling involves the monitoring of the effect of actions against standards, plans, and the subsequent investigation of appropriate corrective measures so that the outcome of events complies with planned outcomes"

To categorise the control activities, the COSO report defined the control activities as the policies, procedures and rules that ensure internal controls are operating well and risks are managed effectively. The report identified three categories of controls:

(i) Operating Controls: these controls deal with managing and monitoring the operations of the organisation.

(ii) Financial Information Controls: which ensure the reliability of financial reporting and safeguard of assets.

(iii) Compliance Controls: which aim at ensuring compliance with law and regulations

With regard to compliance controls, Waggoner, et al (1989), investigated the internal auditors' ability to detect errors in a compliance test of a disbursements system. The study found that, the auditors were approximately 65% accurate in detecting compliance errors. The study also found that, "auditors were most effective in detecting missing authorisations" (p.52). This study provides evidence that internal auditors have an essential role to play to control activities (this study will be discussed in details at the end of the chapter).

4- Information and communication:

Auditors should have excellent communication skills to perform their work. Smith (2005) explained that developing effective communication skills is an important factor for the success of their profession and to improve the quality of audits performed.

Both financial and non-financial information related to internal and external activities should be identified and communicated properly to decision-makers in order to conduct their duties. Communications should consider the authority and responsibility lines (up, down and across the organisation). Moreover, employees in the organisation should be aware of the internal control function and how these controls are working and their role in the system (COSO Report 1992).

Regarding this issue, Siegel (2000), as a part of Practice Analysis Research, surveyed management accountants by asking "given the changes that have taken place in your work over the past five years, what are the most important areas of knowledge or skills that you have acquired in order to do your work effectively?" Almost 50% of the respondents agreed that interpersonal skills and communications skills and knowing all aspects of the business operations are the most important.

5- Monitoring and evaluating function:

Hubbard (2003) argues that, the concept of monitoring involves day-to-day oversight by management, periodic reviews by auditors and other groups, and the processes of management to address and correct known deficiencies.

Lindow and Race (2002) argued that the monitoring function can be used to assess the quality of a company's internal control systems. The auditor does this through an ongoing monitoring of activities within the business unit and an independent evaluation of existing controls.

As a part of management responsibilities in monitoring the internal controls, the COSO Report (1992) suggested that for the effectiveness of internal control systems, it should be monitored on a continuous basis. It is the responsibility of management to monitor and evaluate the internal control system, and any weaknesses should be identified and reported to officials in order to take corrective actions. In line with the COSO Report (1992) recommendations, Changchit et al (2001) identified three reasons why managers are likely to perform internal control evaluations. First, it is the responsibility of management to establish and maintain the internal control system. Second, external auditors do not have the same detail of the internal control system as management. Third, the internal control system should be evaluated continuously so that any weaknesses could be prevented or detected.

Stearn and Impey (1990) argued that the evaluation of the internal control system means how to judge its purposes and effectiveness and highlight its strength and weaknesses. Internal auditors can make judgements about the effectiveness of the system. (p. 58).

Lee and Colbert (1997), explained the three analytical techniques that management might employ to oversee controls:

(1) Trend analysis:

Trend analysis involves the comparison between the current periods amounts to an amount extrapolated from the trend of the item being examined.

(2) Reasonableness tests:

In the reasonableness tests management compares the predicted figures to the actual amount.

(3) Ratio analysis:

Ratio analysis involves the calculation and analysis of relationships between different data items.

Lee and Colbert (1997) examined the list of the controls as presented in the COSO Report to the analytical procedures used by management in monitoring the controls. The study found that the monitoring controls are a part of management responsibilities and the analytical procedures are found to be effective procedures that management can use to monitor controls.

In conclusion, it can be argued that the COSO Report is a very important document that has a considerable impact on the development and maintenance of internal control systems. The COSO report encourages management and internal auditors to be more involved in understanding internal control and to establish and manage effective internal control systems.

2.3.3.3.5.3 The Sarbanes-Oxley Act 2002 (USA):

The Sarbanes-Oxley Act (2002) is one of the most recent reports in the area of corporate governance, it came out as a result of large corporate financial scandals involving Enron, World Com, Global Crossing and Arthur Andersen. Section 404 of the Sarbanes-Oxley Act (2002), Management Reports of Internal Control over Financial Reporting, requires each annual report of an issuer to contain the following:

- A statement of management's responsibility for establishing and maintaining adequate internal control over financial reporting for the company.
- Management's assessment of the effectiveness of the company's internal control over financial reporting as the end of the company's most recent fiscal year.
- A statement identifying the framework used by management to evaluate the effectiveness of the company's internal control over financial reporting.
- A statement by the accounting firm that the company's internal financial statements, included in the annual report, has issued an attestation report on management's assessment of the company's internal control over financial reporting

Ferrell (2003) explained that organisations can also use the Section 404 assertions rules to help them to achieve the business processes. He argued that throughout a critical analysis of current controls, the internal control assessment may produce several improvements, including; more usage of system based controls, better evaluation of process risks and mitigation of risk, more uniformity of key controls and passage of responsibility for control assessment down to the process of owners.

However, Grant (2003) argued that, due to the financial scandals, the International Federation of Accountant (IFAC) in its Taskforce report highlighted recommendations to help in improving global confidence in accountancy profession. In reality, many of these recommendations are implemented in some countries (USA in the form of Sarbanes-Oxley Act, and the Higgs report in the U.K).

2.3.3.3.6 Committees and reports regarding internal controls in the UK:

Corporate governance developments in the UK started in the late 1980s and the beginning of the 1990s, a number of committees in the U.K played an important role in revising and issuing new regulations concerning corporate governance. This part will review the literature provided by committees regarding internal controls, as it is one of the main concerns of the researcher.

2.3.3.3.6.1 Report of the committee on the financial aspects of corporate governance (Cadbury Committee):

In December 1992, the Cadbury Committee published its report on the Financial Aspects of Corporate Governance. The committee re-emphasised the role of companies in the economy of the country and the role of corporate governance. The committee's recommendations focused on the control and reporting functions of boards, and on the role of auditors.

In the area of internal controls, the committee's report explained that directors are responsible for maintaining adequate accounting records. In order to meet their responsibilities, directors need to maintain a system of internal control over the financial management of the company. Since the effectiveness of the internal control system is important in the efficient management of a company, the committee recommended that, the directors should make a statement in the report and accounts on the effectiveness of their system of internal control. The auditors should report on this (Provision 4.31 and 4.32).

The committee believed that the effectiveness of the internal control system is an essential part of the efficient management of a company. In order to fulfil that, the committee recommended that the accountancy profession and management should consider the following:

(a) Developing a set of criteria for assessing effectiveness.
(b) Developing guidance for companies on the form in which directors should report.
(c) Developing guidance for auditors on relevant audit procedures and the form in which auditors should report (Provision 5.16).

2.3.3.3.6.2 The Hampel Committee:

The Hampel Committee on Corporate Governance was established in November 1995. This followed the recommendations of the Cadbury Committee that a new committee should review the implementation of their findings. The London Stock Exchange, the Confederation of British Industry, the Institute of Directors, the Consultative Committee of Accountancy Bodies, The National Association of Pension Funds and the Association of British Insurers sponsored the committee. The final report was issued in January 1998 (Para 1&2, report introduction).

Regarding internal controls, the Committees' report recommended that the directors' statement should acknowledge the board's responsibility for the internal financial control system. The committee also recommended that the control system should describe the key procedures established in order to provide effective financial controls. (Code 6.11 Hampel Committee)

Most notably, the Committee refers to internal financial controls as internal controls over safeguarding of assets, the maintenance of proper accounting records and the reliability of financial information used within the business or for publications. Furthermore, the guidance issued by the committee encouraged directors to review and report on the internal controls, including controls to ensure the effectiveness and efficiency of operations and compliance with laws and regulations (Code 6.12 and 6.13).

2.3.3.3.6.3 Internal control: guidance for directors (The Turnbull Guidance) 1999 & 2005:

This guidance was first published by the Institute of Chartered Accountants in England and Wales in 1999 and revised in 2005. The objectives of the guidance were to reflect sound business practice whereby internal control is embedded in the business process, and to enable companies to implement it in a manner which takes account of its particular circumstances (the Combined Code p. 4). This guidance requires a company board of directors to review and judge how the company implemented the requirements of the Code that relate to internal controls. This paragraph is in line with the study of Scarbrough, et el (1998) who examined the relationship between the accounting and auditing knowledge of the audit committee of board of the directors and their role in reviewing internal auditing plans and results, considering that internal auditor are responsible for monitoring of the internal controls. The results indicated that there is an association between audit committee interaction and internal auditing and audit committees and that the audit committee review internal auditing programmes and results. Zaman (2001) outlined the key recommendations of the Turnbull Report, regarding the control system. It recommended that the establishment, operation and monitoring of the system of internal controls should be undertaken by individuals who have the skills, knowledge, objectivity and understanding of the organisation and the industry.

In paragraph 20, the Combined Code identified the elements of a sound system of internal control: that the system includes policies, procedures, tasks and behaviours that facilitates the effectiveness and efficiency of the operations, and ensures the quality of internal and external reporting and compliance with applicable laws and regulations. In a nutshell, the internal control system will reflect the control environment, control activities, information and communication and the process of monitoring the effectiveness of the control system. In addition to risk management, which was discussed by the code, these recommendations are consistent with the outcomes of COSO Report (1992), which re-emphasised the five controls as a management tool for monitoring and deriving the internal control system of an organisation.

Finally, the Combined Code detailed the responsibility of the board of directors in reviewing the effectiveness of internal controls, considering it as essential parts of the board duties. The Code sets a number of procedures and suggests that the board should receive and review reports on internal controls and report in the annual reports of the organisation (paragraph 25-29).

2.3.3.3.6.4 Greenbury Report (1995):

During the 1990s, the issue of director's remuneration emerged and became one of the primary concerns for investors and public. In particular, the level of remuneration of directors in the private sector was rising and remuneration packages were failing to provide incentives for directors to perform better. As a result, it was recognised that corporate governance issues relating to director's remuneration needed to be highlighted. However, this situation led to the establishment of the Greenbury Committee by a group of investors and industrialists.

The Committees' findings were documented in the Greenbury Report, which including the Code of Best Practice on Director's Remuneration.

Particularly, the Code dealt with four issues:

(i) The role of the Remuneration Committee in identifying the remuneration packages for the Chief Executive Officers and other directors.

(ii) The required level of disclosure needed by the shareholders regarding details of directors' remuneration.

(iii) Specific guidelines to establish a remuneration policy for directors.

(iv) Contracts of service and provisions binding the Company to pay compensation to a director, particularly in the event of dismissal for unsatisfactory performance.

The Code recommended that the Committee comprising entirely of non-executive directors. The Report recommended that the service contracts include a maximum notice of one year.

2.3.3.3.7 The main types of internal controls:

A system of internal control consists of polices and procedures designed to provide management with reasonable assurance that the business entity achieves its objectives and goals. These policies and procedures are often called controls. Power (1997: 83) stated "traditionally, in the professional accountancy literature, internal controls refer to accounting controls, and concern measures in organisations like segregation of duties, authorisation polices, organisation structure, measures to protect assets and information, and credibility tests". The researcher observed that most banks in Sudan are implementing these traditional controls focusing mainly on the financial controls. This section will review and discuss these controls.

1- Segregation of duties:

Effective segregation of duties represents an important component of any organisation's internal control system. The main idea of segregation of duties is to prevent one employee starting and completing a transaction. Every transaction consists of four aspects, authorisation, custody, recording and implementation. If anyone employee is responsible for two or more aspects he will able to manipulate the records and defraud the organisation. However, Lightle and Vallario (2003) acknowledged the role of internal auditors in reviewing employee tasks and transactions to identify potential segregation of duties conflicts and make recommendations to minimise their impact.

2- Organisation:
It is essential that every employee has certain defined duties to do. This can be achieved throughout well-identified lines of authority and responsibilities. Organisation charts and job descriptions can achieve this.

3- Arithmetical and accounting controls:
According to Dunn (1996) "a variety of accounting and bookkeeping tools have been devised for the detection of errors in the financial statements"(p. 164). For example, a trial balance will ensure that double entry principles are implemented. Also checking the calculations and ensuring accuracy is an important element.

4- Personnel:
It is important that the staff have the ability to apply all the controls. They should have the experience and qualification to be able to implement the controls. There should be a system of recruitment and rewards to attract the staff.

5- Supervision and management:
Management has the responsibility to ensure that the controls are operating efficiently and that they are supervised on daily basis. It can be argued that it is impractical that top management and board of directors can carryout daily checks. It is therefore, the role of internal auditors to review the system of internal controls on regular basis and report to management.

6- Physical controls:
Chan (1988) argued that controls are mainly concerned with the custody of assets and should contain procedures and reasonable levels of security in order to ensure that only authorised staff could gain access to assets. Changchit et al. (2001), explains that,

there should be adequate internal controls to protect assets and records. Dunn (1996) concurs that organisations should establish administrative controls to prevent the misuse and theft of assets. Controls over computer systems are essential and require a system to prevent unauthorised use of computers. Establishing a system for keeping computer files and the use of pass words for authorised staff is important.

7- Authorisation and approval:
All transactions must be authorised and approved by appropriate personnel. The system should include limits for these authorisations and they should be stipulated in the organisation procedures.

In short, internal controls help organisation's management carry out its normal business activity in an orderly, effective way and contribute to the effective management of risks that affect the achievement of the organisation's objectives.

2.3.3.3.8 Summary:

There are two main benefits of internal audit departments. The first came from the conventional audit that focuses on the audit of financial system and control. Therefore, the internal audit function assists in preventing and detecting irregularities and safeguards the assets of an organisation. The second is the performance audit, which concentrates on the economy, the efficiency and the effectiveness of different aspects of the organisation. Therefore, the chapter linked the functions of internal audit departments, factors affecting the strength of internal auditing and the control systems of the organisations.

The chapter discussed the development of internal auditing and its value within the organisation as well as its relationship with the board of directors and its audit committee.

This chapter reviewed in details the contribution of objectivity, competence and work performance to the strength of internal audit function. In relation to the internal controls, the chapter introduced the importance of establishing and maintaining a system of internal controls for management. Furthermore, the chapter highlighted the importance of reporting on internal controls by management as well as the existence of these reports in the annual accounts. Boards of directors should evaluate the effectiveness of internal controls and ensure that the controls are functioning well.

During the last two decades a number of financial scandals occurred. As a result, a number of committees and commissions published reports to improve the global confidence in corporate governance and the accountancy profession; therefore, the chapter introduced some of these reports. Finally, the chapter introduced the main types of internal controls. The next chapter will present the literature regarding the relationship between internal and external auditors.

CHAPTER THREE
THE RELATIONSHIP BETWEEN INTERNAL AND EXTERNAL AUDITORS

3.1 Introduction:

This chapter will discuss the relationship between the internal and external audit functions. This chapter starts by reviewing the definitions of external auditing and its objectives and the role of the internal audit department in the preparation of financial statements. The chapter mainly focuses on the relationship between internal and external audit functions. Therefore, it discusses the similarities and differences of the two functions. Furthermore, the benefits of coordination of the work of internal and external auditors and the standards governing this relationship were presented. Moreover, the chapter reviews how far reliance on the work of internal auditors can reduce the cost of the external audit. Finally, the chapter reviews a number of studies that have examined the reliance decision on the work of internal auditors by external auditors using the three variables (objectivity, competence, and work performance) to measure the degree of reliance (for example, Abdel-Khalil et al 1983 and Haron et al 2004). Few studies have examined the external auditors' reliance on work performed by internal auditors in relation to the influence of fee pressure on this reliance decision (Felix et al 1998 and Gramling 1999). Finally, fewer studies studied work coordination between internal and external auditors (Waggoner & Rickette 1989 and Haron 1996).

3.2 Definition of auditing:

Accounting deals with the collection, summarisation, and communication of information regarding economic events especially those events relating to business entities. There are many users of accounting information, such as creditors, banks, government agencies, shareholders, investors, investors and financial analysts. Auditing is an integral part of the communication process with the financial statement users. Arens et al (1997:2) defined auditing as "the process by which a competent, independent person accumulates evidence about quantifiable information related to a specific economic entity for the purpose of determining and reporting on the degree of correspondence between the quantifiable information and established criteria". The American Accounting Association Committee (AAAC), defined auditing as "systematic process of objectivity obtaining and evaluating evidence regarding assertions about economic actions and events to ascertain the degree of correspondence between those assertions and established criteria and communicating the results to interested users" (for example see Dunn 1996).

When comparing the two definitions, it can be noticed that both of them are including common elements.

The first element is independence (objectivity). The statements "competent independent" in the first definition and "objectively obtaining and evaluating evidence" in the second one include the same key meaning. For this reason the auditor must be qualified and competent in order to be able to gather enough evidence for the purpose of examination and then to reach for conclusions. Regarding the independence, auditors ought to be objective so as to be able to obtain and evaluate the results objectively.

The second element is the process, the first definition starts with "the process by which a competent", the second one starts with "a systematic process". From the two definitions it can be argued that auditing is a process, which indicates that the auditing function has a clear system.

The third element is reporting and communication, reporting considered the last stage in the audit process, the purpose of reporting is to give the users the degree of correspondence between quantifiable information and established criteria. The first definition states "reporting the degree of correspondence" The second definition states "communicating the results to interested users". The two definitions stressed that the auditor should communicate the results independently.

The fourth element is accumulating and evaluating evidence, the first definition states "accumulates evidence about quantifiable information" while the second definition states "obtaining and evaluating evidence". The both definitions identified the importance of obtaining evidence for any information during the audit course.

3.3 Objectives of External Auditing:

The British Standard, Statement of Auditing Standard SAS 100, Objectives and General Principles Governing an Audit of Financial Statements, highlighted the role of external auditors in the financial statement audit. The Standard starts with a statement of the objectives of an audit. According to the standard, the main objective of an audit of financial statements is to enable auditors to give an opinion on the financial statements taken as a whole and to provide reasonable assurance that the financial statements give true and fair view (where relevant) and have been prepared in accordance with relevant accounting or other requirements.

Furthermore, in line with the SAS 100, the IFAC handbook explained the objective of external auditing in the financial statements audit, it stated that "to enable the auditor to express an opinion whether the financial statements are prepared in all material respects, in accordance with an identified financial reporting framework" (IFAC, 1997, p.50). Moreover, the International Standards of Auditing (ISA) stated that the objective of an audit of financial statements is to "enable the auditor to express an opinion whether the financial statements are prepared, in all material respects, in accordance with an applicable financial reporting framework" (ISA Exposure draft, 2004 p. 56). Therefore, in forming an opinion, auditors need to obtain sufficient audit evidence so as to be able to draw an opinion as to the truth and fairness of the accounts and to issue an appropriate audit report. The main audit objectives are:

- The main objective of an audit, as described above, is to ascertain that the financial statements do show a true and fair view of an organisation's financial position. Also the auditor is responsible to for informing the users through the audit report if he believes that the financial statements are not fairly presented or unable to draw an opinion that they are fairly presented.
- To highlight the role of management in preparing the financial statements. As it is known that management is responsible for the fairness of representation in the financial statements and for determining which disclosures they consider necessary.
- To describe the auditor's role in reviewing the financial statements, and the auditor's responsibility to discover errors, illegal acts and other regularities. This objective aim to provide a reasonable assurance of detecting material misstatements in the financial statements.

3.4 Internal audit role in the financial statement audit:

In all audits, the external auditor should obtain an understanding of the client's internal controls by performing procedures to understand the design of control relevant to an audit of financial statements, and by determining whether they have been considered in operations. The external auditor obtains an understanding of the components of the client's internal controls, including the client's internal audit department. Accordingly, for clients who maintaining internal audit departments, the external auditor should obtain sufficient understanding of that function (AU 319 AICPA 2001). Based on an understanding of the client's internal audit department, the American Standard SAS 65 and the British Standard SAS 500, direct the auditor to determine whether the internal auditors' activities are relevant to the financial statement audit. If the external auditor determines these activities to be relevant, and considers it to be sufficient to the work performed by internal auditors, then the external auditor will assess the quality (objectivity, competence, work performance) of the internal auditors.

Auditing standards dealing with considering the work of internal auditors, for example, SAS 500 and SAS 65 (AU 322 AICPA 2001) in particular, stressed that if the quality of internal auditing is not of high level, the external auditor should not rely on the work performance of internal auditors. If the internal audit department is considered to be of high level of quality, the auditor will determine the nature and extent of reliance to be placed on the work performance of internal auditors. Auditors may rely on procedures that internal auditors have performed related to internal controls, as well as on substantive testing procedures they have performed. Reliance on the work of internal auditors can affect the nature, extent and timing of planned external audit procedures. Accordingly, researches related to consideration of the work of internal auditors by external auditors examined the relationship between internal audit quality factors (objectivity, competence, quality of work performed) and the extent of internal audit contribution to the financial statement audit (Schneider 1985a, Margheim 1986, Edge and Farley 1991, Al-Twaijry et al 2004).

3.5 The similarities and differences between external auditing and internal auditing:

Although there are fundamental similarities between external and internal auditing, many differences separate the two professions. By reviewing the both internal and external auditing literature the following paragraphs present the differences between the two functions.

Hubbard (2004) explained that business organisations generally appoint internal auditors to inform management in terms of operational performance and compliance with laws and procedures, while external auditors focus on the examination of and reliability of financial reporting. However, management determines the role of internal auditing, and its objectives different from those of the external auditor who is appointed to report independently on the financial statements. The internal audit function's objectives vary according to management's requirements. The external audit's primary concern is whether the financial statements are free of material misstatements.

External auditing refers to audits of financial statements performed by external auditors. The main objective of external auditing is to assess the integrity of the financial statements. The board of directors on behalf of shareholders contract with the external auditor to perform this work. Internal auditing refers to audit work conducted by a staff of professional auditors who are employees of the organisation being audited.

In terms of independence, external auditors are independent from the organisation they audit, while internal auditors are expected to maintain a reasonable degree of independence from activities they audit in order to preserve their objectivity.

Regarding the scope of work, the range of internal auditing activities is broad and includes all of the levels in the organisation and involves all levels of authority, while external audit focuses upon the financial accounting system and organisational activities which directly affect the financial statements (Ratliff et al 1988). Hubbard (2004:25) mentioned that external auditors must conduct substantive tests of transactions and account balances to develop supporting evidence for their reports. While internal auditors may test transactions or corporate account balances, but their work emphasises tests that determine whether controls governing management's financial accounting processes and systems are achieving their intended purpose.

It can be argued that the work of internal auditing activities can be categorised into two main streams, first, as an important part of internal control, second, internal auditors play an important role in the audit of financial statements by providing assistance to external auditors (Basel Committee, 2000:12).

3.6 The concept of coordination between internal and external auditors:

Generally, coordination within an organisation refers to the degree of the quality of collaboration between the departments (Daft 2004). The following will explore the importance of coordination to both internal and external auditors.

Regarding internal auditors, according to the Institute of Internal Auditors, the Performance Standard 2050 stated "the chief internal audit executive should share information and coordinate activities with other internal and external providers of the relevant assurance and consulting services to ensure proper coverage and minimise duplication of effort" (IAA, 2001). While Redrup et al (1999) viewed audit committees, external auditors and management are customers of the internal audit function. Therefore, the internal audit function should establish and ensure effective coordination within an organisation. Furthermore, Burnaby and Klein (2000) reported that internal auditors are increasingly contributing to the work performed by external auditing.

In relation to external auditors, it is suggested that they are responsible for expressing an opinion on the financial statements, while management is responsible for ensuring appropriate financial reporting and implementation of internal controls.

The Sarbanes Oxley Act (2002) Section 404, stated that external auditors are now restricted to providing attestation of management internal controls report. They are not themselves required to evaluate internal control effectiveness. Therefore, it is important that external auditors coordinate their work with management and internal auditors.

Gaston (2000:37) mentioned that the work of internal and external auditors should be coordinated to avoid any work duplications, the author argued that the internal audit function is not a substitute for external auditing and that internal auditors should not concentrate on financial controls areas that are covered by external auditors.

While Wood (2004) listed some benefits of coordination between the two functions, he suggested that coordination increases trust between internal and external auditors. It is suggested that coordination will increase efficiency in terms of avoiding duplication of audit work that already performed by internal auditors. It is argued that internal and external auditors have different strengths that combine to increase the effectiveness of audits.

Finally, it can be concluded that coordination between the two functions has a positive effect in the process of audit work, in terms of, minimising the cost and time of external auditors and increasing the credibility of the internal audit department.

3.7 Auditing standards governing the use of internal audit work by external auditors

This sub-section will throw light on the significant publications (standards) related to the external auditing standards covering the area of consideration of the work of internal auditors.

The British Standard Statement of Auditing Standards SAS No.500, issued by the Auditing Practice Board "Considering the Work of Internal Audit". Para 3 of the statement emphasised the role of internal audit function as an appraisal and monitoring activity established by management and directors for the review of accounting and internal control systems as a service to the entity. However, its function amongst other things is to examine, evaluate, and report to management and directors on the adequacy and effectiveness of the components of the accounting and internal control systems.

Similarly, in the USA, the Statement of Auditing Standards SAS No. 65 (AICPA), the Auditor's Consideration of the Internal Audit Function in an Audit of Financial Statements, provided guidelines to use the work of internal audit function on a financial statement audit. The statement considers that the internal audit function is a part of the control system and requires the external auditor to understand the internal audit function. However, SAS 65 addresses a number of issues including:

- Understanding of the internal control function.
- Assessing the objectivity and competence of internal auditors.
- Evaluating the effect of the internal audit work on the independent auditor.
- Co-ordinating audit work with internal auditors.
- Supervising the internal auditors.

SAS 65 also provides guidance on how external auditors should:

1) Modify their procedures based on the internal auditor's work.
2) Assess, evaluate and test the internal auditor's competence objectivity and work performance.

Furthermore, the Canadian Guidelines of the Canadian Institute of Chartered Accountants (CICA), 1997, states that "external auditors can rely on the work of internal auditors when involved in reviewing and testing the system of internal controls".

Moreover, International Standards Auditing section 260 (ISA 260), "Communications of audit matters with those charged governance" (International Federation of Accountants 2004). The standard provides guidelines for external auditors to communicate matters that may be of interest to the governance body of an entity. The communications included in the guidelines permits the external auditor to communicate with the internal auditor.

3.8 Comparison of the standards and guidelines related to considering the work of internal auditors:

This section will compare and analyse the statements of auditing standards related to considering the work of internal auditors, included those from the UK, the USA and the International Standards.

After the publication of the Cadbury Report in 1992, the Auditing Practice Board (APB) in the UK reviewed and updated all existing auditing standards and guidelines, including drafts of the structure of the Statements of Auditing Standards (SASs). As a result, the APB issued the statement (SAS 500), *Considering the Work of Internal Auditors*, which replaced Auditing Guideline 3.408 *Reliance on Internal Audit.* In 1992 revised 2004, the International Standards on Auditing (ISA) issued an equivalent standard, *Considering the Work of Internal Auditors.* It can be argued that there are many similarities in between the two standards. However there are four broad requirements in the two standards:

- The external auditors should consider the activities of internal audit and their effect on external audit procedures.
- The external auditors should have a sufficient understanding of internal audit activities to assist in planning the audit and developing an effective audit approach.
- During the course of their planning the external auditors should perform a preliminary assessment of the internal audit function when it appears that

certain internal audit work is relevant to the external audit of financial statements.

- When external auditors use specific internal audit work to reduce the extent of their audit procedures, they should evaluate that work to confirm its adequacy for their purposes.

Regarding the US standards, the American Institute of Certified Public Accountants (AICPA) issued the Statement of Auditing Standards (SAS 65), *The Auditor's Consideration of the Internal Audit Function in an Audit of Financial Statement.* This standard was issued in April1991. The standard stressed three issues that should be considered by the external auditors, which are, objectivity, competence and work performance. Regarding professional competence, the standard encourages the auditors to obtain and update prior information about the internal auditors. The SAS discussed the internal auditors' experience and education level, audit polices, programs and procedures, auditor assignments practices, supervision and review activities, quality of documentation and reporting.

In the area of objectivity, the SAS highlighted many issues regarding the objectivity of internal auditors that should be considered by external auditors, however it includes; the organisation status of the internal audit director, the reporting level of the department, the access of internal auditors to the audit committee or the board and auditing polices with respect to the internal auditors' recent or future assignments.

In relation to the work of internal auditors, SAS 65 presented some suggestions that assists in co-ordinating the work of internal and external auditors, it include: holding periodic meetings, joint scheduling of work, access to internal audit working papers, and reviewing internal audit reports issued (Lampe and Sutton 1994).

However SAS 65, recommended some key procedures to evaluate the work performance and work quality of internal audit departments, it includes: the adequacy of scope on assignments, the adequacy of programs, the adequacy of working papers documentation and the consistency of reports with audit results obtained.

When comparing the three standards, the most important factor is that the three standards guide auditors to similar overall considerations of internal auditor quality.

The AICPA SAS 65 provides more specificity regarding the items listed for consideration of the work of internal auditors, while the SAS 500 listed fewer specific items and allows auditors greater freedom of judgement in the degree of reliance on the work of internal auditors.

Regarding the auditor's evaluation of the adequacy of the work, Lampe and Sutton (1994) compared between the three standards, the ISA states "auditor should evaluate and test the work to confirm its adequacy". SAS 500 requires the auditors "to evaluate that work to confirm its adequacy", while SAS 65, recommends, but does not require specific re-performance of some internal auditors tests as a method of evaluation. Finally, all the standards require auditors to exercise professional judgement in the application of standards to specific audit engagements.

3.9 The benefits of external auditors use of the work of internal auditors:

Although the external auditor and the internal auditor have different roles, there are some tasks that are common to the two parties. One of the common tasks under taken by both is the examination of the internal control system and the financial reporting process.

It can be noted that there are many benefits for external auditors in using the work of internal auditors. In examining this issue, Buijink et al (1996) conducted research sponsored by the European Commission titled *The Role, the Position, and the Liability of the Statutory Auditor within the European Union.* This publication included a number of recommendations on internal control and auditing. Section 3.31 of the research recommended that auditors should ensure that there is a well-designed internal control system. Furthermore, Section 4.24 highlighted the need for a strong internal audit function within companies. This section considered the external audit to be as a "snapshot" of the company while internal audit can be undertaken on a continuous basis. Sections 3.31 and 4.24 support the idea that the existence of a strong internal control systems and an effective internal audit department can assist in the reliance decision placed by the external auditor on the work of internal auditors.

In line with Buijink et al (1996) the Blue Ribbon Committee on Improving the Effectiveness of Corporate Audit Committees (1999: 29) indicated that the internal auditor also plays a significant role in working with management, the external auditor, and the audit committee in ensuring the effectiveness of internal controls and in bringing any weaknesses to the attention of the appropriate parties.

Additionally, Edge and Farley (1991:70) identified two major benefits to the external auditor of using the work of the internal auditor:

(1) This relationship will reduce the time taken for and the cost of external audit, considering that the external auditors should perform independent tests to satisfy themselves with the work of internal auditors.

(2) This relationship will improve the quality of the external audit function. The internal auditor examines the client internal control system and the financial reporting functions in more depth and continuously, and the internal auditor has a better knowledge of the client and its accounting system. It is predicted that the quality of external audit will be improved by using the work of the internal auditor.

Ward and Robertson (1980:64) identified two areas of reliance for external auditors to rely on the work of internal auditors:

(1) The work of internal auditors performed as part of a client's system of internal control

(2) The work of internal auditors performed under direct supervision of external auditors.

Braiotta and Marsh (1992) explained that internal auditors are responsible for reviewing, assessing and monitoring the internal control structure, policies and procedures. An effective internal auditing function will provide the external auditor with the needed information about the design and the effectiveness of the entity's internal control policies and procedures and help them to assess the control risk and the extent of their substantive procedures.

Krishnamoorthy (2002) pointed out that external auditors usually check and evaluate the strength of the internal audit function and the internal control structure of the client. Therefore, considering the work of internal auditors by external auditors has been an important issue of many professional standards and studies in UK, USA, and Canada.

Wagonner and Ricketts (1989) studied the competence of internal auditors, as compared to external auditors, in the performance of an internal control test to evaluate the effectiveness of certain internal control procedures over a cash disbursement system. Twenty-five external auditors and 19 internal auditors participated in this study by performing a test of controls on a sample of twenty-five disbursements from an actual company's file. The study found that the internal auditors had an overall detection rate 63.2%, while the external auditors had an overall detection rate of 59%. This study proved that the internal auditors can perform internal control tests efficiently and can assist the external auditors in performing their tests. The study concluded that internal auditors could reduce the cost of audits by avoiding the duplication of auditing effort. It was suggested that these results support the use of internal audit's testing of controls by external auditors in the documentation, testing, and evaluation of a client's control system.

Ward and Robertson (1980) argued that the reliance on internal auditors by external auditors is an important factor regarding the economics of auditing. They conducted a survey of 42 external auditors and 47 internal auditors to examine the degree and nature of participation of internal auditors in the external auditor audit function. In the area of internal accounting control, 72% of external auditors and 57% of internal auditors reported reliance on internal auditors by external auditors regarding tests of internal accounting control. The study found that only 38% of external auditors and 40% of internal auditors reported reliance on evaluation of internal accounting controls.

Haron (1996) studied the rating of both internal and external auditors on the quality of a payroll internal control system by using 8 cases (internal control procedures) distributed to the both groups. The results indicated that no significant differences were found between their ratings. However, this was an indication that external auditors can rely on work or judgement of internal auditors.

In summary, external auditors check and evaluate the strength of the internal control structure of an organisation. The internal auditors' role is to monitor the internal control system of their organisation. Therefore, using the work of internal auditors by external auditors in the area of internal controls will assist in reducing the cost of external audits and time spent in audits.

3.10 Factors affecting internal audit contribution:

The internal audit function plays an important role in reducing the cost of external audit by reducing the audit fees. Felix et al. (2001) identified four factors that affect external auditors' decisions to use work conducted by the internal auditors. These factors are:

3.10.1 Internal Audit Availability:

The most important factor for external auditors to consider is the participation of internal auditors in the financial statement audit is their existence (availability). It can be noted that the availability of internal auditors during the time period of the financial statements audit assists in their contribution. However, the more time internal auditors have available during the time period of financial statement audit, the greater their contribution.

3.10.2 Internal Audit Quality:

SAS 65 linked the quality level of internal auditing and the external auditor's consideration of internal audit work, while, SAS 500 requires the external auditors to use the work of internal auditors after evaluating its adequacy. A number of research papers discussed the issue of quality, and supported the positive relation between internal audit quality and the contribution made by internal auditors to the financial statement audit. For example see (Abdel-Khalil et al. 1983, Brown 1983, Schneider 1984, Maletta 1993). The professional standards and prior researches in this area suggested that the contribution made by internal audit to the financial statement audit is positively related to the level of quality of the internal audit function.

3.10.3 Level of Coordination of Internal and External Audit:

Both external and internal auditors are concerned with cost and quality issues, the auditing standards encourage both of them to coordinate their work regarding the financial statement audit (IIA 2004 and AICPA 1997). Examples of coordination efforts include, assigning specific audit work to internal auditors during the year and managing internal audit availability at year-end.

3.10.4 Risk in the Audit Environment:

SAS 500 and SAS 65 indicated that audit risk factors should be considered by external auditors in determining the contribution of internal audit to the financial statement audit. Maletta (1993) argued that the inherent risk affects the external auditor is reliance decisions by interacting with factors related to internal audit (objectivity, competence and work performance).

3.11 Reliance decisions and the cost of external audit:

In recent years, professional accounting bodies that represent both internal and external auditors have expressed interest in increasing the level of coordination between the internal and external audit (Morrill and Morrill 2003). The purpose of this consideration is to ensure adequate coverage and decrease the duplication of the work and develop a more effective strategy for collaboration (Engle 1999).

Many research papers discussed the advantages of the external auditor's reliance decision on the work of internal auditors in relation to the cost of audits. For example, survey research conducted by Felix et al (1998) indicated that the primary reason that external auditors rely on work completed by a client's internal audit department is to lower audit costs. The study showed that this reliance is a possible response to fee pressure and to the competitiveness of the marketplace. It was suggested that reliance on the work performance of the internal audit department resulted in less external auditing work (AICPA 1997, AU 322). While Gramling (1999) indicated that external auditors are not satisfied with clients who impose a high level of fee pressure to rely on the work of internal auditors. The author suggested that reducing planned audit hours due to fees pressure might affect the auditor independence and audit effectiveness in term of audit quality.

Gramling (1999) conducted an experiment to examine whether and to what extent, audit managers alter their decisions to rely on work performed by internal audit in response to client fee pressure. Considering that audit managers' planning decisions are also likely to be influenced by the preferences of the audit engagement partner. The results indicated that audit managers dealing with a client who imposes a high level of fee pressure rely on the internal audit's work to a greater extent than audit managers who are dealing with clients who are focusing on the quality of audit. It was found that partner preferences have also influenced audit managers' reliance decisions.

3.12 How reliance reduces the fees?

Over the last two decade considerable research has been conducted into the area of pricing audit services and the determination of audit fees (for example, see Ezzamel et al 1996 and Moizer 1997). However, external auditors' reliance on the work of internal auditors should reduce the hours spent on audit activities and thus reduce the audit fees paid to the external auditor (Haron 2004). Maletta (1993) viewed this issue from the point of view of the market competition. He argued that the increase in the complexity and scope of the audit process, in addition to pressures to reduce audit fees resulting from competition in the profession, have the potential to increase the use of internal auditors in the performance of external audit examinations.

Regarding the issue of reducing external auditing fees, Wallace (1984b:16) observed that internal auditors can play an important role in reducing the fees of external auditors by improving a company's accounting controls, performing some financial examinations and help the external auditors in the following:

- Providing organisational support. This may include preparation of lead schedules, collection of records for review and alteration of records to facilitate sampling approaches.
- Providing review assistance. This may involve accounts analysis, review and documentation and reviews of plants and facilities.
- Providing testing assistance. This may consist of checking the physical inventory, customer confirmation, payroll tests and compliance with controls.
- Helping in preparation and drafting of footnotes to financial statements. This may include the process of following up management letter notes and coordinating management's responses to the external auditor's comments on controls and operations.
- Providing general assistance as called on. This may include visiting locations, making acquisition audits and system audits.

Wallace (1984a) conducted a study to examine the effect over a period of a time of internal audit activities on the external audit fees (during the period 1975 to1981). The study found a relationship between internal audit activities and minimising external audit fees although internal auditors spent 5% of their time on an average in assisting external auditors in their work. As a result the external audit fees, on average, were reduced by 10%. The study concluded that the internal audit departments have an important role in the stability of the external audit fees.

Similarly, Messier and Schneider (1988) discussed the growing pressure on external auditors to control or reduce audit fees. They suggested that one possible method for controlling and minimising external audit costs is coordination between internal and external auditors. This can be achieved by integration between external and internal audit plans and provision of internal audit assistance. Coordination and integration between the two functions will help to provide cost effective coverage and prevent duplication of work. More specific procedures include rotation of audits of major locations, acceptance of internal audit work by external auditors and performance of audit work by internal auditors under supervision of external auditors.

3.13 The quality of internal auditing and the reliance decision of external auditor:

The quality and effectiveness of the work performance of the internal audit department will be measured by some factors such as the type of work conducted and the time spent on work that conflict with their roles as internal auditors (Al-Twaijry et al 2004). Furthermore, the auditing standards concerned with the consideration of the internal audit function by external auditors (SAS 500 and SAS 65) explained that the external auditors will consider the work of internal auditors if the internal audit department maintains an appropriate level of quality. The next sub-sections will discuss the importance of quality and the role of external auditors in the quality of internal auditing.

3.14 The importance of quality in internal auditing:

In the professional literature, Standard for Professional Practice of Internal Auditing (SPPIA) of IIA required the director of internal auditing to develop and maintain a quality assurance and improvement program that covers all aspects of the internal audit activity and continuously monitors its effectiveness (Standard 1300, 2004).

The quality programme should include a periodic internal and external quality assessment and continuous internal monitoring.

While SAS 65, in assessing the internal auditor's competence and objectivity, required the external auditor to review information obtained from:

- Previous years' experience with the external auditors. The issue here is to demonstrate via positive feedback the quality of the internal auditor's work.

- Any quality reviews of the internal audit function. The issue addressed by the SAS is self-assessments or conducting peer reviews (Reinstein et al 1994:30).

The SPPIA No. 1300 "Quality Assurance and Improvement Program" explained that internal audit activity should adopt a process to monitor and assess the overall programme effectiveness. The Standard differentiates between the internal assessment and external assessment that are:

3.14.1 The internal assessment:

In the area of internal assessment the standard stressed the following issues:

- Ongoing reviews of the performance of the internal audit activity.
- Periodic reviews performed through self assessment or by other persons within the organisation, with knowledge of internal audit practices and the standards.

3.14. 2 The external assessment:

This includes quality assurance reviews. According to the standard (1312) it should be conducted at least once every five years by qualified independent reviewer or review team from outside the organisation.

3.15 External auditors and internal auditing quality:

It is one of the responsibilities of external auditors to report to management and audit committees on whether the internal auditing function is an effective component of the organisation's internal control structure.

One of the primary tasks of the external auditor is to assess the quality of the internal auditor's programme, working-paper documentation, reports and recommendations (Reinstein et al 1994). In the USA SAS No. 65 (AICPA, 1997, AU 322) stated that the competence and the internal audit department mainly depends on a company and its internal audit department's operations, processes and procedures, and the quality and quantity of supervision available in the internal audit department. Haron (2004) argued that in making decisions about the extent of reliance on the work of internal auditor, external auditors should judge and assess the internal audit quality.

Huston and Warrick (1993) argued that although the Standards of auditing recommended that an external review of the internal auditing department to be conducted once every three years, the number of companies reporting that they had or intended to have an external review is low. They based their argument on a result of a survey conducted by McEnroe (1989). The survey studied whether directors of internal audit departments at Fortune 500 companies (USA) had adopted the recommendations of the Treadway Commission concerning the quality of internal auditing. However, the study investigated three areas; the internal audit director's authority, the scope of internal audit function and quality control. Regarding quality control, 55.3 % of the respondents agreed that there should be a periodic external review for the internal audit function. 38.4 stated that they conducted these reviews in their companies. 88.1 % of directors stated that their internal audit departments adhere to the Standards of Professional Practice of Internal Auditing.

3.16 Previous studies in external auditors reliance on the work performed by internal auditors:

Many studies have been conducted on the decision to use the work of internal auditors by external auditors. Maletta (1993) for example asserted "Prior research has generally indicated that the three internal audit variables identified in the professional standards- objectivity, competence and work performance- significantly affect auditors' internal audit reliance judgements". Most of these studies have examined external auditors' general evaluations of the internal audit quality and their decisions to rely on the prior work of internal auditor (for example, Brown 1983, Schneider 1984, 1985 b, Margheim 1986, Messier and Schneider 1988, Krishnamoorthy 2002, Haron et al 2004, and Al-Twaijry et al 2004). Few studies have addressed auditor's decisions to use internal auditors as assistants in conducting the internal audit (for example, Ward and Johnson 1980, Wagonor and Ricket 1989, Maletta 1993, and Haron 1996).

Gibbs and Schroeder (1980) conducted a study to determine what criteria are important in determining the competence, objectivity and work performance of an internal audit department. The study developed a list of criteria by surveying both external and internal auditors, considering the experience factor of external auditors in the area of internal auditing. The study produced three detailed ranked lists of criteria that measure how external auditors evaluate the competence, objectivity and work performance of internal audit departments.

Brown (1983) performed one of the first studies aimed to examine the three factors – objectivity, competence and work performance- that might be considered important by the external auditor in evaluating the reliability and the reliance to be placed on the internal audit function. He found that all these factors had simple additive effects on the reliance decision that internal auditor objectivity and the previous years' audit work were the main factors influencing the decision. Generally, the results showed that work performance and objectivity of the internal auditors to be the most important factors with competence a distant third. The study did not find significant interaction effects among the three factors.

Abdel-Khalil et al. (1983) investigated the impact of two of internal audit variables, objectivity and work performed on the percentage of external audit work that auditors assigned to the internal audit function. The results indicated that these factors had a significant effect on the auditor's decisions to use internal auditors as assistants. The study found that one of the objectivity variables (internal auditors reporting level) accounted as the most important factor within the factors used in the study. This study did not use the competence factor.

Schneider (1984) conducted an experimental study on how external auditors evaluate the strength of internal audit function by using the three criteria recommended by SAS No. 65- competence, objectivity and work performance as measurements. The results of the study revealed that external auditors viewed work performance as the most important factor when evaluating the internal audit function, followed by competence and objectivity factors.

Berry (1984) examined the coordination efforts between internal and external auditors through the eyes of the internal auditors. The study took a sample of 18 large companies were selected and interviewed. The study identified ranked criteria for the evaluation of internal audit staff competence, objectivity and performance, in addition to how to establish and introduce a co-ordination program.

Schneider (1985a) conducted a research to examine the relationship between external auditors' evaluation of internal audit function and their evaluations of internal audit strength. Included in the investigation was an assessment of the levels of importance auditors attach to the three criteria recommended in SAS No. 65 in forming evaluation judgements and reliance decisions. The results showed that the auditors generally relied on internal auditing to reduce their external audit work. The study found that auditors perceived competence and work performance factors to be almost equally important, and the objectivity factor to be less important.

Schneider (1985b) examined the degree of consensus among external auditors in evaluating the internal audit function. Using the three variables objectivity, competence and work performance for examining the degree of consensus, the study found that 9 of the 15 auditors considered the work performance as the most significant factor, with 8 of the 9 indicating the following ordering: work performance, competence and objectivity.

Margheim (1986) conducted an experimental study by examining whether external auditors adjusted the nature and extent of audit procedures due to reliance on the internal audit function and whether this reliance was related to internal audit competence, work performance and objectivity. The experimental task for this study included the evaluation of an accounts receivable control system and the appropriateness of account balances. Results indicated that external auditors reduced planned audit hours if internal audit had a high level of competence and work performance but did not alter their tests in response to changes in the degree of internal auditor objectivity. Moreover, for the competence and work performance variables, the results suggested that internal audit had to perform documented work in specific areas before the external auditor subjects would alter the number of planned hours.

Messier and Schneider (1988) examined the external auditor's evaluation of the internal audit function by using Analytical Hierarchical Process with 22 audit supervisors and managers. The results indicated that external auditors are taking competence as an important factor. Objectivity and work performance followed competence in importance.

Peacock and Pelfrey (1989) carried out a survey covered internal audit directors and their staff who have a direct relationship with external auditors. The study used two questionnaires, the directors of the departments completed one and the other targeted the staffs that have direct involvement with the external auditors. The study aimed to evaluate the relationship between the internal and external auditors in different areas; however, one of these areas was to test the internal auditors' contribution to the external audit. The study found that internal auditors who co-operated with external auditors were not satisfied with their relationship with external auditors because external auditors did not use internal auditors to their fullest extent.

Edge and Farley (1991) conducted a study in Australia by examining the relative importance of the factors that used by external auditors when evaluating the internal audit function based on the factors mentioned on the Statement of Auditing Practice AUP 2 " Using the Work of Internal Auditor". Results indicated that technical competence which is measured by experience, supervision and training/educational background as the most significant factor. Work performance is considered as a second factor, previous audit work was considered as the third factor. Organisational status (objectivity) was considered as the least important factor.

Tiessen and Colson (1990) studied whether external auditors can accurately self-report variables they consider in determining the reliance placed on a company's internal audit function and the variables influencing reliance are affected by the nature of the company's industry. The study found that the form of working relationship between the external and internal auditor was more important in determining the external auditors' reliance evaluations than was the specific work internal audit performed. Objectivity of internal auditors was a significant variable in reliance evaluations when the status of the director of internal auditing was such that the company's audit committee consulted the director about the work of external auditors. Competence variables are not significantly affecting the reliance decision.

Maletta (1993) studied the external auditors decisions to use the internal auditors as assistants. The study used the three factors of SAS 65, competence, work performance and objectivity, furthermore, the study expanded to investigate the impact of inherent risk on auditors' decisions to use the internal auditors as assistants. Results revealed that when inherent risk is high, auditors appear to use more complex configural decision processes to evaluate internal audit objectivity and work performance than when inherent risk is low. The external auditors consider the effect of work performance of internal auditors in case of high objectivity. In case of low inherent risk conditions, there is no interaction between work performance and objectivity. Moreover the results showed that within the inherent risk conditions, competence of internal auditors is the most important factor, followed by objectivity and work performance.

Krishnamoorthy (1994) investigated the external auditor's evaluation of the three factors recognised by the standards of internal auditing, objectivity, competence and work performance of internal auditors. The results revealed that evidence related to work performance was of little value to the external auditors when they have negative perceptions about either the internal auditor objectivity or competence. However, when the external auditor maintain positive perceptions about the internal auditor objectivity and competence, the value of evidence about internal auditor work performance was important. The research recommended that these three factors recognised by the professional standards have significant effects on the evaluation of external auditors and whether or not to rely on the internal audit function.

As this study was concerned with the consideration of internal audit work by external auditors, Lampe and Sutton (1994) conducted a study to compare the UK's Accounting Practice Board statement of Auditing Standard 500, first, with similar standards issued by international, Canadian and US societies, and second, with audit quality factors taken from internal auditors. The data for the purpose of comparison was obtained from two-phase study. In the first phase, six different and diverse groups of internal auditors participated in-group interviews, and then obtained evaluations of these factors from a large sample of internal auditors worldwide. The results indicated that there were strong similarities between the guidance provided by SAS 500 and standards issued by Canadian and US audit groups.

Brody et al (1998) investigated the impact of internal audit department quality differences on auditors' willingness to rely on the work performance of internal auditors. The study gave a consideration to the auditors' recent experiences with material errors and irregularities and examined the influence of two individual auditor differences on audit judgements decisions: conflict management style and perception of internal/ external auditor communication barriers. The subjects were 107 audit seniors who attended a training seminar. The results showed that auditors attend to internal audit department quality differences and that individual auditor differences have significant effects on auditor judgements.

Felix et al (1998) studied the relationship between the internal and external auditors, in terms of, the work performance of the internal auditors as a part of the external audit function and the reasons for the co-ordination of efforts between the internal and external auditors. Two questionnaires were designed for internal and external auditors beside face-to-face interviews. The main findings of the study indicated that there were interactions between the internal and external auditors, the study showed that there was co-operation and co-ordination in terms of planning the audit work and accessing each other working papers and reports. This research indicated that more than 25% of the internal auditor's time was spent on financial audit, while only 6%

spent on assisting the external auditors. Both of the groups agreed that 50% of internal audit work was related to the internal controls.

Krishnamoorthy (2002) examined how the three factors – objectivity, work performance and competence – of internal auditors as identified by the auditing standards interact in determining the strength of the internal audit function. The study used an analytical method based on Bayesian probability to model external auditors' evaluation of the internal audit function. Models based on multistage (cascaded) interference theory are developed and analysed using numerical sensitivity analysis. The results indicated that the importance of the three factors varies with the type of the evidence (convergent or conflicting) observed and contingent on the interrelationships among the three factors.

Al-Twaijry et al (2004) examined the extent of co-operation between internal audit departments directors and partners and managers in external auditing firms in Saudi Arabian companies. Questionnaires and interviews were used for data collection. The results showed that external auditors tend not to endorse the current practice of external auditing and expressed particular concerns about the independence, scope of work and the small size of many internal audit departments. However, the internal auditors considered the co-operation between the internal auditors and external auditors to be limited, where the external auditors were more positive as to the extent of co-operation in the case that the internal audit departments maintain professional skills in its work. The quality of the internal audit department played a big role on the reliance decision of the external auditors on the work of internal audit departments.

Haron, et al (2004) conducted a study based on Malaysian AI 610, Malaysian Institute of Accountants (MIA, 2001) Considering the Work of Internal Auditing. The objective of the study is to determine which of the criteria as mentioned by the standard (AI 610) was used by the external auditors to evaluate the work of internal auditors. The subjects of the study were external auditors- partners, managers and senior staff- from auditing firms in Malaysia. The study found that the technical competence and scope of function are the two most important criteria that external auditors consider in their reliance on internal auditors.

3.17 Summary:

In recent years, professional accounting bodies representing both internal and external auditors have expressed interest in increasing the level of coordination between the internal and the external audit. The purpose of such coordination is to ensure adequate total audit coverage and minimize duplication of efforts (Institute of Internal Auditors; Institute of Internal Auditors, 2004).

This chapter commenced by the definitions and objectives of external auditing. Furthermore, the role of internal audit departments in the financial statement audit is covered. Thereafter, it attempted to present the concept of coordination between the work of internal and external auditors and the benefits of using the work of internal auditors by external auditors. Moreover, the effect of internal auditing quality on the reliance decision of external auditors to use the work of internal auditors is discussed. However, it is suggested the coordination between the internal and external audit function could be a reason for increasing the internal audit function quality and minimising the cost of external audits. Finally, a number of studies in this area were discussed. Most of these studies were conducted in the 1980s and few in the 1990s and very few were conducted after the year 2000.

The next chapter focus on issues related to Sudanese business environment and will reflect the development of accounting, auditing and banking in Sudan since its independence in 1956.

CHAPTER FOUR

SUDANESE BUSINESS ENVIRONMENT AND THE DEVELOPMENT OF ACCOUNTING, AUDITING AND BANKING

4.1 Introduction:

The preceding chapter highlighted the literature relevant to the research topic. The survey of the literature in chapter 2 suggested that the strength of internal audit departments is affected by three factors; objectivity, competence and work performance and monitoring of internal controls of internal auditors. Furthermore, the reliance decision on the work of internal auditors by external auditors was discussed in the context of the three factors. The chapter aims to discuss the main characteristics of the Sudanese business environment and the changes that have taken place in this environment since the country became independent in 1956. Different issues will be highlighted in the following sections, including the geographical and historical background of country, the main changes in the political and economical systems since independence and detailed background about the banking sector and the internal controls applied by banks, accounting and auditing in Sudan.

4.2 The rationale behind discussing the Sudanese business environment:

Previous research, especially in western countries, has demonstrated the factors affecting the strength of the internal audit function and the relationship between internal and external auditors based on the three factors (objectivity, competence and work performance of internal auditors). These studies highlighted the internal audit function as a control mechanism as well as the relationship between both internal and external auditors. It suggested that these studies were related to the business environment and internal auditing practices (see for example, Gibbs and Schroeder 1980, Brown 1983, Schneider 1984, 1985, Margheim 1986, Messier and Schneider 1988, Krishnamoorthy 2002, Haron et al 2004, and Al-Twaijry et al 2004). Accounting and auditing development is closely associated with the economic development of a country. The results of this research suggested that these factors were related to the broad business environment, such as the political climate and government regulations, have a significant impact on internal auditing practices used in enterprises operating in Sudan (Brierley et al 2000 and Abdelaziz 2001). Arpan and

Radebaugh (1985) suggested that low levels of economic development is usually accompanied by little economic activities and correspondingly little financial, tax and managerial accounting. However, as the level of economic activity and the size of companies increase accordingly, the accounting activity increase. In addition, relating these practices to specific historical events in the country in which they are implemented is the only way of understanding them. In turn, firms have to cope with the market changes and business environment in order to survive and succeed (Jaruga and Ho, 2002).

Based on the above, it seems to be rational to provide a historical background on the context in which this research study is conducted, shedding light on the geography and history of Sudan, the economic environment and the development of the banking system as well as the accounting and auditing profession in Sudan.

4.3 The geography and history of Sudan:

Sudan is the largest country in Africa with an area of 2,505,815 sq. km, for comparison, slightly more than one-quarter the size of the USA. It is located in the North East of Africa. Sudan is an Afro-Arab country. It has borders with 9 countries, Egypt on the north, Libya, Chad, Republic of Central Africa from the west, Congo, Uganda, Kenya from the south, and Ethiopia and Eritrea from the east, with a total land boundaries of 7687 Km. This strategic position in the middle of the African continent that makes a melding point between Arabs and Sub-Saharan peoples. The capital is Khartoum, and other major cities include Wadmadani, Atbara, Elobeid, Juba, Elfashir and Port Sudan, Sudan's major port.

According to the CIA World Fact Book (CIA, 2004) the total population of Sudan estimated to a little over 39 million inhabitants occupying this vast area. Although the current overall population density of 15 persons per square meter implies that the country sparsely populated, there are pockets of high population density. The population density in areas under cultivation is 356 persons per square Kilometre. However, Sudan has a young population structure in that 44% of its population are under the age of 15 years.

The population of Sudan has tripled from 10.3 millions in 1955/56 to about 32 millions in mid 2001. The annual population growth rate of 2.6% is projected to decrease to 2.1% by the end the second decade of the third millennium, indicating a doubling rate of 27 years. The total population is expected to reach 50 millions by 2020 (Cameroon 2002).

Sudan is a highly multi-cultural, multi-ethnic, and multi-lingual society. It is estimated that the country is made up of 19 major ethnic groups and some 600 sub-groups. According to the 1956 Census the numbers of spoken languages are 122. The majority of population are speaking Arabic, spoken by 60% of the population. The official languages is the Arabic but according to Abdel-Rahim (1969:5) only of half of those who claim Arabic descent speak it as their mother tongue, while most of the rest of the country speak a pidgin for of it as a "lingua Franca".

The majority of Sudan's population are Sunni Muslims (70%) although there is significant indigenous beliefs (25%) and Christian's minority of (5%).

Historically, Sudan was a collection of small, independent kingdoms and principalities from the beginning of the Christian era until 1820-21, when Egypt conquered and unified the Northern portion of the country. In 1881 the religious leader the Mahdi began a religious crusade to unify the tribes in Western and Central Sudan. Taking the advantages of conditions resulting from Ottoman-Egyptian exploitation and maladministration, the Mahdi took Khartoum in 1885. In 1899 the British, who supported the Egypt's administration of Sudan since 1820, imposed an Anglo-Egyptian condominium. Although under joint control, Sudan was effectively colonised by Britain. However, after considerable nationalist protest, the British relinquished control of Sudan in 1954. Sudan was granted independence on 1 January 1956 (Daly 1988).

Before and after the independence the legal system implemented was based on the English legal traditional system that is known as the Common Law. The government of the second military regime (1969-1985) in its last years and the current government proposed a change in the legal system to one based on the Islamic Laws (Sharia Laws) in the North parts of the country and non-Islamic laws in the South parts of Sudan. However, it can be argued that for Muslims, Islam is a complete code of life in that it has the potential to cope with all possible real life problems, including political, social and economical problems. Up to now, Sudanese governments have still followed some elements of the British legal system in the financial aspects, for example the Sudanese Companies Act 1925 amended 2003.

4.4 Politics:

Since independence, Sudan has been at peace for 11 years and at civil war for 39 years (the last peace agreement signed in 9th January 2005). Furthermore, since 1956, Sudan has experienced three democratic governments for a length of 11 years and 39 years of military governments. After independence a multi-party system was set up with an elected parliament, the majority party formed the government but the state was headed by a council chosen by the parliament and had to include a member from the southern part of Sudan. In 1958, two years after independence, the first military coup took place and lasted for six years and was overthrown by the people. Democracy returned but lasted only for 5 years. In May 1969 the second military coup took power and lasted for 16 years. During this period there were many failed attempts to overthrow this regime. In 1985 the May regime was overthrown by the people again but democracy did not last for a long and the third military government, which is now ruling, seized power in 1989, and since that time planning to introduce non-parties democracy. According to the peace agreement in January 2005, the type of the current government is a Provisional Government established by the Comprehensive Peace Agreement that provides for power sharing with the former rebels on a 70-30 basis pending national elections during the mid-2007 to mid-2008 time frame.

4.5 Country organization:

It apparent that each political regime-democratic or military regime-, when assuming power, tries to make changes in the country organization. This can be seen through the number of times the administrative division of the country has changed. However, prior to 1994, these changes are always within the context of the geographical divisions in the north, south, east, west, central provinces and the capital was also considered as a separate province. Each province has a local governor with limited responsibilities and is responsible to the central government. Cameroon (2002) argued that after 1994 Sudan introduced a federal system of governance. Accordingly, the country was divided into 26 states with full-fledged decentralized political and planning authorities, mainly operating through a system of state governance (Ministry of Local Governments 2005).

In turn, these states were divided into a number of provinces that were subsequently sub- divided into local administrative areas known as localities. These sub-authorities undertake planning, executing and managing of education, health, agricultural and service activities on provinces and localities level. This decentralization of authorities and the reorganization that occurred had an impact on the way social services were delivered by different sectors of states' authorities. The central government undertakes planning and general polices (System of Government. The Council of Ministers (www.sudan.gov.))

4.6 The economic environment:

Sudan's economic system consists of private and public sectors. However, in the early 1990s the present government launched a programme called Sudan's Structural Adjustment Programme to increase the performance of Sudan's economy. One of the purposes of this programme was to shift the economy to a market oriented one, where the ownership of business entities became largely private, but still Sudan's economic system is a mix of state owned or shared enterprises and private organisations. With the exception of petrol, the market force determines prices of goods and services and wages.

4.7 Economic sectors:

In general, the Sudanese economy can be divided into three major economic sectors, namely: agriculture, industry and oil, and services.

4.7.1 The agricultural sector:

Sudan is a predominantly rural country. Therefore, agriculture is the most important sector accounting for over 46% percent of GDP in the year 2000 (see table 3.1) and providing livelihood for 70% of the population and employing 56% of the active force works (7.1 million). Arable land estimated to be 80 million hectares represents 32% of the total lands, however, only 16 million hectares are cultivated (16%). Furthermore, 25% of the land area is forest while 20% is semi-desert and 13% is swampy wetlands and the remaining 22% is deserts. The Sudanese economy is depending on agriculture and pastoral but only 5% of its cultivatable lands are cultivated.

The agricultural sector is composed of two distinct sectors. The first one is the traditional old subsistence economy that known as the rain-fed sub-sector, this sector is mainly composed of a crop and livestock traditional farming system, but encompasses an established, mechanized crop-farming system in high rainfall areas. In general, this sector uses primitive methods of production that mainly produces food crops.

The second sector is irrigated area that is concentrated mostly in publicly owned and administered schemes along the banks of the Nile River and its tributaries. This sector is considered to a modern one that uses technical equipment and modern methods of irrigation and produces cash crops.

Sudan faced serious economic problems in the late seventies and in the eighties when ambitious development programs were planed. Umbadda and Shaaeldin (1983), argued that these problems referred to the policy that was known as "bread basket strategy" and depended on agricultural resources and funding from Gulf countries. The plan was expected to reduce dependence on cotton and produce different types of cash crops. The plan failed to achieve its goals for number of reasons, the main reason was investing in capital projects with long gestation when funds came from external resources, and ignoring the traditional sector and the deficiencies in government policies in areas like prices and foreign exchange rates. According to Al-Batanoni (1994: 12) the second reason is that the International Monetary Fund (IMF) policy of Exchange Fund Facilities allow the government at that time more credit although it has never fulfilled the required conditions like the balancing of the balance of payments, or achieving exchange rate and inflation targets.

Sudan produces many cash crops, for example, oil seeds crops uses one quarter of the cultivated land and is dominated by groundnuts, sesame and sunflower. The other important crops, particularly for export purposes, are cotton and gum Arabic, of which Sudan is the largest producer in the world.

4.7.2 Industry, oil and minerals in Sudan:

With the beginning of oil exports in 1999, the contribution of this sector to GDP has already risen by over 50% compared to a base level of 14.2% in 1996. As can be seen from table (3.1), the share of electricity and water and construction sub-sectors in total

GDP have stayed the same throughout the period since 1995, while the share of manufacturing and mining has more than doubled. Growth has been particularly marked in the mining sector, which includes petroleum and has an average growth rate of over 200% in the period 1999-2000. Mining and, in particular, petroleum, become a more important contributor to GDP than manufacturing in 2000.

According to United Nations Development Assistance Framework (UNDAF) 2002-2006, the manufacturing sub-sector has traditionally been dominated by agro-industries, which are dependent on the supply of inputs from the agricultural sector. The growth in pharmaceutical and chemical industries is providing a more varied industrial base.

In 1991 the industrial exports of Sudan amounted to only US$ 24 million, this sector increased by 1997 to US$ 207 million. This increase is attributed to the growth in the sugar industry beside the leather and textiles exports. However, the output of the mining and manufacturing sub-sectors, which are heavily influenced by the oil production are moving in an upward trend.

For the performance of water and electricity, table (3.1) indicating the poor performance of this sub-sector. Currently the government aims to solve the power crisis with construction of new power stations, in cooperation with external investors. It is expected that this sub-sector will rise in the future. The construction sub-sector is showing some stability in its performance and its contribution to the GDP. This sub-sector is expected to show some growth according to the construction activities that are taking place, such as Marawi Dan in the north of Sudan and the new international airport of Khartoum and other construction projects all over Sudan.

The importance of oil for the future of Sudan's economy is illustrated by the impact of oil on the balance of payments situation between 1998, before significant oil production and 2000 by the end of which nearly 200,000 barrels per day (bpd) were being produced (see table 3.2). According to the Energy Information Administration 2005, Sudan's oil exports have increased sharply since the completion of the major oil-export pipeline. Currently, 70% of Sudan's total exports revenues come from oil exports. MBendi (2005) explained that although Sudan has been producer of oil and gas since 1999, it is considered to be vastly under-explored. The country's oil proven reserves are estimated at 1.6 billion barrels, are thought likely to double or triple in the next 3to 4 years. The total exports of Sudanese oil exceeded US$ 1376.4 millions in 2001 (see table 3.3). Sudan is also rich in natural gas with reserves estimated at 3 trillion cubic meters. Today, oil production reached 500,000 bpd and according to the estimates of the Ministry of Petrol and Minerals Wealth, the production will reach to 1,000,000 bpd in 2009.

4.7.3 The services sector:

This sector is considered to be as one of most important sectors in Sudan. It contributes about 35.3% to the GDP. The services sector comprises the following major sub-sectors: commerce, restaurants and hotels, finance and insurance, real estate and business services, transport and communications, tourism and government services.

As can be seen from Table (3.1) there were many changes occurring in each sub-sectors contribution to the GDP. However, one of these major changes occurred in the services sector that it was heavily affected by the structural adjustment program of the government which has been implemented since 1992 that directly affected the government service sector. The need for balancing the budget led to shrinkage of the government service sector including social services (UNDAF 2002). The contribution of government services sector to GDP decreased by 20% from 1995 to 2000. The decline in the government service sector is heavily affecting the provision of basic social services by reducing the budget provided for the social services. This reduction in the public sector provided scope for private sector to access credit for investment.

Table 4.1

GDP distribution (%)

Sector	1992	1993	1994	1995	1996	1997	1998	1999	2000	average
Agriculture	**33.7**	**37.9**	**40.1**	**43.1**	**44.9**	**47.6**	**48.6**	**49.8**	**46.4**	**43.5**
Irrigated crops	12.6	10.3	11.1	11.2	13.3	14.1	14.3	12.8	12.7	12.4
Rained Mechanised crops	4.8	4.6	2.3	2.8	2.2	3.2	1.9	2.7	1.1	2.8
Rained Traditional Crops	2.5	3.9	4.1	6.7	6	6.9	7.4	8.7	7.6	5.9
Livestock	11	16.4	19.5	19.4	20	20	21.7	22.3	21.8	19.1
Forest, fisher, other	2.8	2.7	3.1	3	3.4	3.4	3.3	3.3	3.2	3.1
Industry	**17.1**	**17.4**	**16.4**	**15.8**	**14.5**	**15.1**	**15**	**15.8**	**21.4**	**16.5**
Mining &Quarrying	0.1	0.1	0.1	0.1	0.9	0.9	0.9	1.9	7.5	1.3
Manufacturing	9.6	10.1	8.8	8.6	6.5	7.4	7.2	7.2	7.5	8.1
Electricity &Water	2.1	2.3	2.3	2.2	1.9	1.9	1.8	1.8	1.7	2
Construction	5.3	4.9	5.2	4.9	5.2	4.9	5.1	4.9	4.7	5
Services	**49.1**	**44.5**	**43.5**	**41.1**	**40.6**	**37.2**	**36.2**	**34.4**	**32.2**	**35.3**
Government services	10.3	7.8	7.8	7.2	7.5	5.9	6.5	6.2	5.8	6
Other services	38.8	36.7	35.7	33.9	33.1	31.3	29.7	28.2	26.4	29

Source: Bank of Sudan, financial and economic performance 2000.

Table 4.2

Trade Balance (US $M)

Year	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
Exports	374	308.7	319.3	417.3	535.6	555.7	620.3	594.2	595.7	780.1	1808	1698
Imports	618.4	890.3	820.9	944.9	1059.6	1184.8	1504.5	1421.9	1732.2	1256.2	1553	1585
Trade Balance	-244	-581.6	-501.6	-527.6	-524	-629.1	-884.2	-827.7	-1136.5	-476.1	255	113

Source: Bank of Sudan, financial and economic performance 2000.

Table 4.3

Oil exports for the period 1999 to 2001 (in Million US $M)

Type	1999	2000	2001
Crude oil	275.9	1240.7	1269.2
Refined Benzene	-	82.6	88.4
Kerosene	-	25.5	0.4
Natural Gas	-	-	18.6

Source: Bank of Sudan, financial and economic performance 2001.

4.8 Khartoum Financial Market:

The idea of establishing a financial market in Sudan was first mooted in 1962, however, an act for the financial market was passed in 1982. As a step towards developing the financial sector as well as the overall economy of Sudan, in November 1992 the Council of Ministers approved an amendment of the financial market and it started functioning at the beginning of 1995. It was thought that the country's financial resources would be better utilised through the development of a sound capital market (www.MBendi.com).

Nonetheless, the exchange operates on the basis of the directives of Islamic Sharia. It objectives include:

- Organizing and supervision of the issue of securities.

- Encouraging saving by ordinary citizens and raising capital for public companies.
- Promoting and encouraging investment in securities.
- Creating the necessary investment environment.
- Establishing a code of conduct and fairness among the various investors.
- Guaranteeing equal opportunities for those dealing in securities in order to protect small investors.

Currently Khartoum Financial Market is one of the most developed and fastest growing markets in East Africa. Its capitalisation is over US$ 1.8 billion. The market is dominated by the banking and finance and communications sectors (Khartoum Financial Market, Annual Report 2005).

4.9 Banking, accounting and auditing in Sudan:

This part will shed a light on the banks structure and system, in addition to give an idea about the accounting and auditing profession in Sudan.

4.9.1 The meaning and importance of banks:

Cox (1979, p.1) defined banks as "an institution that performs three basic functions:
It accepts and safeguards deposits of money from customers. It permits money to be withdrawn or transferred from one account to another. It lends the surplus of deposited money to customers who wish to borrow"
It can be argued that the main objective of the banks is to make profit and assist in the economic development of the country.
In general, banks play an important role in the financial system and the economy. Banks, as intermediaries, allocate funds from savers to borrowers in an efficient manner. In this way, banks can encourage the economic development by encouraging savings through offering a rate of interest on deposits and encouraging investments in profitable projects.

4.9.2 Banking in Sudan:

4.9.2.1 The origin of banking in Sudan:

Hamid and Kheir (1997) explained that Sudan, like many other colonised developing countries, had known the commercial banking activities in the dual-government regime that was known as the Anglo-Egyptian condominium (1899-1955). The first bank established in Sudan was the National Bank of Egypt in 1901; it obtained a privileged position as banker to and for the government, a "semi-official" central bank. Other banks followed, but the National Bank of Egypt and Barclays Bank dominated and stabilised banking in Sudan until after the Second World War.

The period before the independence of Sudan in 1956 had witnessed the establishment of other six branches, they were: Barclays Bank 1913, the Turkish-Osmani Bank 1949, the Branch of the Egyptian Bank 1953, the French Credit Lyonnais 1953, the Arabian Jordanian Bank 1954, and the Ethiopian Bank 1976. Salih (1998) added that the same period had witnessed the establishment of the Sudanese Agricultural Bank as the first specialised financial institution in Sudan, the act of this bank was issued in 1957 and started the work in May 1959, this bank considered as the first bank established by the national government after the independence of Sudan to promote agricultural ventures. Before Sudanese independence, there had been no restrictions on the movement of funds between Egypt and Sudan, and the value of currency used in Sudan was tied to that of Egypt. After independence in 1956, this situation was unsatisfactory to the national government, consequently, the Sudanese Currency Board was established to replace Egyptian and British money.

In 1960 the Bank of Sudan (the central bank) had been established in accordance with the Banking Act in order to serve the following:

1. Issuing of paper currency and coins.
2. Keeping government and government departments accounts.
3. Managing external and internal public debt.
4. Issuing the national currency.
5. Assisting in settling the economical and financial policies.
6. Carrying out researches and planning concerning the development of the banking system.
7. Serving as the bank of the banks, keeping their reserves in safe custody, to be the lender of last resort, and to be a Clearing House.

8. Managing credit as the Central Bank determines general and sector credit ceilings.

During the 1960s the government established three specialised banks, the Industrial Bank of Sudan 1961 to promote private industry, the Sudanese Estates Bank in 1966 to provide housing loans, and the Sudanese Savings Bank established to make small loans particularly in the rural areas.

After independence, the Sudanese banking system passed through different stages, therefore the next sections will discuss these stages.

4.9.2.2 The stage of pre-nationalisation (1960-1970):

Al-Bagir (1999) argued that the Bank of Sudan had started in 1960 as the central bank of Sudan, likewise, the Sudanese Commercial Bank had been established at the same year as the first national bank performing the commercial banking activities in corporation with other branches of the foreign banks that had been working in Sudan.

After independence, the national government did not find enough resources to finance the planned annual development programmes. Consequently, it started to think of increasing the number of national banks in Sudan.

In 1964, the French Credit Lyonnais Bank had been changed into a Sudanese French company, in the name of Elnilein Bank. In 1965 the Bank of Sudan began to exercise its real authorities concerning the investment of the financial resources and controlling their exploitation. The Bank of Sudan had placed or set restrictions on finance, increasing and decreasing the interest rate of loans, in addition to transferring of the government and semi-government account to the customers.

4.9.2.3 The stage of nationalisation and economic openness (1970-1980):

Abdel Rahaman, (1999:5), Stated that "After May Revolution broken-out in 1969, the government determined a five-years plan for social and economic development in 1970-1975, with socialistic and communistic tendency, aiming to make all available resources under the control of the state". At the same year the Banks Nationalisation Act had been issued based on the concept that all the country resources including the financial bodies should be put under the control of the state.

Concerning the execution of the Banks Nationalisation Act, many branches of the foreign banks had been nationalised and renamed as follow:

1. Barclays Bank was nationalised and renamed as Bank of Khartoum.
2. The Ethiopian Commercial Bank had been nationalised and renamed as Juba Commercial Bank, this bank was later merged with Omdurman National Bank in 1973 and named as the Unity Bank.
3. The Turkish-Osmani Bank had been changed and renamed as Omdurman National Bank and later merged with the Unity Bank.
4. The Arabian Jordanian Bank was nationalised and renamed as the Red Sea Bank which was later merged with the El Nilein Bank.
5. Finally, the Bank of Egypt was nationalised and renamed as the Public Cooperative Bank that was merged with the bank of Khartoum (1972).

In 1975 flexible regulations were implemented to encourage foreign capital investment, as a result, foreign banks were urged to establish joint ventures in association with Sudanese capital, this policy known as the open door policy. This system was partly a result of Nimeiri's (governor of Sudan 1969-1985) disillusion with the left after unsuccessful communist coup of 1971. Therefore, several foreign banks took advantage of the opportunity, regarding these changes Citibank and Chase Manhattan Bank started their activities as branches of foreign banks.

4.9.2.4 The stage of banking duality (1980-1990):

In September 1983, the May Government implemented the Islamic laws (Sharia Laws) in Sudan, in February 1984 the banking body in Sudan had been Islamicised, accordingly, most of banks that were working in Sudan implemented the Islamic Financial Laws and some few banks were working according to the traditional banking system.

Hamid and Kheir (1997) argued that this duality in the banking system led many clients not to respond to such a trend due to their unawareness of the Islamic financial modes. One of the problems facing the Islamic banking system in Sudan at that time was the lacking of trained and qualified cadre who had enough knowledge of those Islamic financial modes. As a result, banks found difficulties in converting the traditional finance methods into the Islamic ones.

However, it can be argued that the most prominent characteristic of the 1980s was the duality of banking activities which negatively affected the banking sector in Sudan.

This period witnessed the establishment of many joint banks as a result of applying the economic openness and Islamic financial laws. These banks were, Sudanese

National Bank (1981), the National Bank for Public Development (1982), the Sudanese Islamic Bank (1983), the Cooperative Islamic Development Bank (1983), Eltadamon Islamic Bank (1983), Blue Nile Bank (1983), the West Islamic Bank (1984), Elbaraka Bank (1984), Sudanese-Saudi Bank (1986), the Workers National Bank (1988), and the Alshamal Islamic Bank (1989).
Most notably, this stage witnessed the exit of western banks branches in Sudan such as Citibank and Chase Manhattan Bank.

4.9.2.5 The stage of activating the Islamic banking method (1990-up to now):

Basheer (1998) pointed out that Sudan, in the early 1990s had launched financial and economic reform programmes within the national comprehensive plan (1992-2002) and the programmes of economic recovery starting with the triennial programmes of rescue (1990-1993). In the context of the programmes trends, the central bank was responsible for activating, directing and developing the performance of the banking body, through its monetary financing policy as well as through controlling its authorities and power. That was reflected in the various achievements that were represented in the banking body expansion, further Islamiclisation procedures, the issuance of regulating the banking activities act and the establishment of the Khartoum Exchange Market. In this period the Bank of Sudan reactivated its handbill- issued in 1984- for the commercial banks to give-up working with interest based system in their banking dealings, and to apply the Islamic Financial Modes in all their banking activities and transactions.

The difference between traditional banking and Islamic banking is that it is interest free. Islam prohibits Muslims from taking or giving interest. To resolve the issue of interest from a legal and religious point of view, Islamic banking employs common terms: *musharakah* or partnership for production; *mudharabah* or silent partnership when one party provides the capital, the other the labour; and *murabbahah* or deferred payment on purchases, similar in practice to an overdraft and the most preferred Islamic banking arrangement in Sudan. The fundamental difference between Islamic and traditional banking systems is that in an Islamic system deposits are regarded as shares, which does not guarantee their nominal value. The appeal of the Islamic banks, as well as government support and patronage, enabled these institutions to acquire an estimated 20 percent of Sudanese deposits.

4.9.3 Methods and mechanisms of banking control and supervision in Sudanese banks:

In Sudan, there are two mechanisms used to control and supervise banking activities. The first mechanism is adopted by the Central Bank of Sudan (Bank of Sudan), which includes four control methods. The second control mechanism includes two methods used by the banks to supervise their daily transactions.

4.9.3.1 Methods used by the Central Bank:

Four methods are used by the Central bank to monitor and supervise the performance of banks. These methods aim to increase the control environment and the reliability of financial reporting of banking sector in Sudan.

Khider (2000) identified the reasons for and objectives of the control and supervision conducted by the central bank of Sudan:

1- To protect the rights of depositors, creditors and the shareholders.
2- To ensure that all the banks are working according to the banking practices issued by the Central Bank.
3- To ensure that the banking operations and activities are correct and reliable. The auditing and inspection teams of the Central Bank should produce reports on correctness and the reliability of the information.

1. The authority for licensing new banks and branches:

According to chapter 5 of the Bank of Sudan Act (2002), it is not permitted that any organisation can conduct banking activities in Sudan except under a licence issued by the Bank of Sudan. This authority is usually included in the regulatory system of central banks all over the world. In Sudan the purpose of this chapter is to guide the new banks to start with sufficient financial resources, considering all of the technical issues of establishing new banks and ensuring the appointment of qualified personnel.

2. Power to require information from banks:

The Governor of the Central Bank may require the banks to present him with the following:

a) Within 4 months of the end of the financial year, a certified copy of the financial statements that have been audited by qualified accountants accompanied by a certified copy of the auditor's report.
b) Within 30 days of the end of each month a certified declaration containing the assets and liabilities of the concerned bank at the end of the previous month in a form to be determined by the Governor.

According to the Banking Act, the Governor of the Central Bank has the authority to require the banks to submit their books for inspection and to present the necessary documents that prove they has implemented the instructions given to the bank.

3. The inspection mechanism:

The Bank of Sudan normally conducts on-site inspections that consist of the review of periodic reports and any other information received from the bank and from the bank's external auditors every two years. In Sudan this type of control is considered as the most important mechanism used by the central bank, however inspection and auditing of the bank records and the financial statements will be also conducted. The inspection team has the freedom to question the bank officials on all issues. Moreover, the purpose of the inspection is to make a general appraisal of the bank to evaluate all of the bank departments and administration activities. The most important method of evaluation used by the inspection teams is the "Camel Analysis" that assists in investigating and analysing the adequacy of the capital, assets classification and quality, management, earnings, and liquidity. Elborai (1997) criticised the role of the on-site inspection teams in Sudanese banks. He explained that this type of inspection is costly and usually does not cover all the activities of the bank. Beside that, most bank employees have misconceptions that the inspection committee members are spies who trace mistakes and report them to the higher authorities in the bank, and some of the inspection committee members are not qualified enough to conduct their work. However, in some of the Sudanese banks, the activities of inspection committees only cover the credit policies and the existence of supporting documents in addition to their review of the role of internal audit departments in ensuring that the internal control system is operating properly (Elbori 1997).

4. Representation of the Central Bank in the bank's board of directors:

In Sudan the banking legislation requires representation of the Central Bank on the bank's board of directors as a mechanism of supervision and control. It can be argued that this representation can provide direct supervision by the Central Bank of the bank activities. Most notably, this representation of the Central Bank will assist in ensuring that all polices and procedures of the bank are in line with the state financial and banking regulations.

4.9.3.2 Controls applied by the banks:

This section will discuss the mechanisms of the internal control system in Sudanese banks, as the internal control system in banks is one of the major conditions of healthy functioning. One of these methods is the Sharia Supervisory Board and the second is day-to-day supervision of internal controls that is monitored by the internal audit departments.

4.9.3.2.1 Sharia Supervisory Board in Sudanese banks:

Sudan, like many other Muslim countries, has experience of establishing Sharia Supervisory Boards (SSB). The main objective of this board is to supervise and control the bank transactions from a Sharia point of view (Islamic Rules). By law, all of the banks in Sudan have to establish a board that is versed in Sharia to supervise and ensure that the bank activities are being pursued and the bank actually carries out its responsibilities in compliance with the Sharia rules (Islamic Rules). This Model was piloted first by the Baraka Group of Islamic Banks and later was adopted by the majority of the banks. According to the Bank of Sudan Act, every bank in Sudan should operate according to the Islamic rules. The SSB comprises at least three persons with knowledge of the Sharia. The membership of SSBs may also include other specialists, for example, accountants, bankers, economists, and lawyers. Abdallah (1997:45) listed the main objectives of SSB in Sudanese banks:

1- To draft and approve, in collaboration with other concerned departments and officials, a model contract and agreement to govern and regulate all the bank's activities and dealings, and to develop models to conform with Sharia principles.
2- To study and decide on, from a Sharia point of view, issues and problems submitted by the board of directors, or the general manager.
3- To provide advice and instructions to the management of the bank.
4- To carry out its responsibilities, the SSB has the authority to inspect the bank's operations, examine the necessary documents, and question any officials in the bank.
5- To present reports to the general manager and the board of directors explaining the SSB's views and opinion on the compliance of the bank's activities.
6- To submit to the general meeting of shareholders an annual report containing the SSB's opinion on the compliance of the operations with Sharia rules.

To ensure the effectiveness of SSBs, the Higher Sharia Supervisory Board was established in 1992 to look after the financial sector and to act as advisor to the Minster of Finance. This board has many objectives, but from the point view of accounting, control and auditing, its objectives can be summarised as follow:

1- To eliminate usurious dealings, fraudulent and other practices which are against Sharia principles and rules.
2- To ensure the strict adherence to the principles and rules of the Bank of Sudan, commercial banks and other specialised banks and financial institutions.
3- To train and assist the Departments of Control in the Bank of Sudan to widen its scope of control to cover the adherence of the banking system and other financial institutions to the Sharia precepts (Ministry of Finance Decision No. 184, 1993).

In conclusion the SSB in Sudanese banks is considered to be one of the main control mechanisms. The roles and duties of SSBs indicate that all of them should perform ex-ante Sharia audits of all transactions in the terms of designing contract agreements and forms. Their role extends to the performance of Sharia audits during the process of the transaction and examination of the financial statements of the bank (Ministry of Finance Decision No.184 1993). From the researcher's point of view, SSB has a major shortcoming that the chairs and members of SSB committees are specialised in Islamic Laws applications rather than accounting, auditing and banking. In other words, they are not familiar with these issues when they examine the bank's financial statements.

4.9.3.2.2 Internal controls In Sudanese banks:

The internal audit function is a part of the ongoing monitoring of the bank's system of internal controls. The internal audit function provides an independent evaluation of the adequacy of, and compliance with the bank's established policies and procedures. The existence of effective mechanisms of internal control in banks is the most important condition of their healthy functioning.

In Sudanese banks, the term "internal control system" is clearly identified in the Act of the Banks. Article 32.e requires all banks to maintain an effective system of internal controls. The same article obliged every bank operating in Sudan to submit to the Central Bank a report on the results of the system of internal controls, identifying the methods and techniques used to correct any weaknesses in the work of the bank. Most notably, the Central Bank requires banks to submit an approved plan of control activities at the beginning of each financial year.

The Basel Committee on Banking Supervision (1998) evaluates internal control systems for banks and identified five key areas of control. They include:

- Management oversight and accountability, and development of a strong internal control culture.
- Assessment of the risk of certain activities including those that are off-balance sheet items.
- Communication of information between levels of management within the bank, especially in the upward communication of problems.
- Key control activities such as segregation of duties, approval, verifications, reconciliation, and review of operating performance
- Audit programmes and other monitoring activities.

The Basel Committee places major responsibility on the board of directors and senior bank management to ensure that the banking internal controls are operating effectively. In line with the Basel recommendations regarding the roles and responsibilities of the board of directors, the Banking Controls Administration in the Bank of Sudan issued directive No 2 in 2002, *Preventive Controls*. The Administration identified the following responsibilities in the area of the internal controls that every bank should:

a) Establish and supervise the internal controls to meet the objectives of the bank.
b) Establish an audit committee that is responsible for the board of directors, the audit committee should conduct its work in co-operation with the SSB, internal and external auditors.

In 2002, the Banking Controls Administration in the Bank of Sudan issued Directive No.3 that requires all banks operating in Sudan to establish an Audit and Controls Committee, which is internationally known as an "Audit Committee". The committee should include at least three non-executive directors, with a reasonable background in financial reporting, accounting, auditing and the standards issued by the International Association of Islamic Banks. According to the Directive No. 3, the committee's meetings should be attended by the financial manager, a member of SSB, the external auditor and the director of the internal audit department. It is argued that the bank's financial manager is not independent enough to attend the committees' meetings, however, this might be one of the shortcoming of the Directive. The general objective of the Audit and Controls Committee in Sudanese banks is to ensure the reliability of financial reporting and the compliance of bank transactions with the Sharia Laws.

The Directive identified in detail the duties of the committee as follows:

1- To discuss the risk areas of the bank's operations and ensure that it is covered in the scope of internal and external audit.
2- To ensure that the financial information provided to management and other parties is accurate and reliable.
3- To ensure that the internal control system is operating effectively.
4- To ensure that the internal audit department is working properly.
5- To ensure that the results of inspection teams of Bank of Sudan are dealt with.
6- To ensure that segregation of duties procedures are properly implemented.
7- To study the bank's laws and regulations and ensure its compliance with the Sharia Financial Laws.

Increased interest in internal controls in banking organisation is not a new phenomenon when looking to the scandals of large banks in the world (Barings Bank and the Bank of Credit and Commerce International in the 1990s) and Alsafa Investment Bank in Sudan in 1999. It can be argued that the resulting losses could have been avoided if the internal controls were implemented effectively. Banks in Sudan were encouraged to implement the recommendations of the Basel Committee to increase confidence in banking controls. Many courses and workshops were conducted to train the bank staff on the principal recommendations of the Basel Committee (Bank of Sudan 2004). The Sudanese experience with the internal controls in the banking sector is in its infancy stage if compared with the developed countries. It should be noted that until now, banking supervision in Sudan has not established clear principles for internal controls and even the directives issued by Banking Controls Administration in the Bank of Sudan were not implemented properly. For example, from the researcher's survey results only three banks out of 21 have established an Audit and Control Committee since the issue of the directive in March 2002.

As a result of the absence of Audit and Controls Committees in the majority of Sudanese banks, a number of embezzlement and fraud cases were discovered. Abdelrahim (2005) refers to the phenomenon of fraud in Sudanese banks and ascribes it to weaknesses in the internal controls as follows:

- Incompetence of senior staff and their poor knowledge of banking operations and audit techniques.
- Employee selection in the banking sector is not based on the competence. Other factors may contribute such as nepotism.
- Due to the high inflation rates in the 1990s the income of employees was decreased. As a result many fraud cases were committed such as Aldamar and Aweel Branches cases- Bank of Khartoum (Alray Alaam 2005:2).
- Regarding the fraud incidents in Sudanese banks, the punishments applied for employees were not strong enough.

To the researcher's knowledge, in the area of internal controls in Sudanese banks, very little research has been conducted. For example, Abdelaziz (2001) examined the effectiveness of the internal control system used in the Bank of Khartoum in discovering irregularities and embezzlement cases. The study analysed the elements of the internal control system, identifying its main characteristics and probing the views of administrators and employees of the bank on the control system as well as identifying the role played by the clients in the control system through sound management of their accounts. One of the objectives of the research was to evaluate the control system and identify its advantages and disadvantages and whether the methods and means used are effective or not. The methodology used in the research was questionnaires and interviews. The study found that there are weaknesses in some aspects of control due to the absence of some elements of control and negligence of others. In addition to that, embezzlement and fraud incidents are attributed to other reasons (these reasons are in the same line with reasons mentioned by Abdelrahim (2005) beside weaknesses of control. The study found that the technical competence of internal audit staff was poor due to the lack of experience and training. As a result they failed to monitor the internal control system. This result is also consistent with the findings of the researcher in the preliminary study in 6 Sudanese banks (2004).

Table 4.4: The Structure of the Banking Sector in Sudan

Joint Banks

1-Bybolos Bank
2- Sudanese French Bank
3-Saudi-Sudanese Bank
4- Faisal Islamic Bank
5- Sudanese Islamic Bank
6-Tadamon Islamic Bank
7- Al Baraka Bank
8- Blue Nile-Mashreq Bank
9- Export Development Bank
10- National Bank of Sudan
11- Ivory Bank
12- Animal Resources Bank
13- Workers National Bank
14- Al-Shamal Islamic Bank
15- Farmer's Commercial Bank
16- Islamic Cooperative Development Bank
17- Omdurmann National Bank
18- Financial Investments Bank

Government Banks

1- El Nilein Industrial Development bank Group
2- Bank of Khartoum
3- Agricultural Bank of Sudan
4- Savings and Social Development Bank

Branches of foreign banks

1- Habib Bank
2- Commercial Real Estate Bank
3- National Bank of Abu Dhabi

Source: Bank of Sudan 2005.

4.10 Accounting and auditing in Sudan:

4.10.1 Accounting in Sudanese Companies Act:

The Sudan Companies Act 1925 was modelled on the UK Companies Act 1908. Section 123(1) of the Act requires that every company operating in Sudan has to keep proper books of account, in which there shall be full, true and complete accounts of the transactions and affairs of the company. Furthermore, Section 124(1) explained that every company should prepare a balance sheet at least once a year. In addition, Section 124(2) requires that external auditors should audit the final accounts of a company and the auditors' report should be attached to the final accounts. The auditors' report should be presented to the annual general meeting. Moreover, Section 125(1) explained that the balance sheet should contain a summary of the property and assets in addition to the capital and liabilities of the company.

However, Brierley et al (2002) noticed that although no indication is provided as to the amount of disclosure, but details should be provided of the general nature of assets and liabilities and how the value of fixed assets has been arrived at. It is also noticed that the act does not require the companies to prepare a profit and loss account. The only requirement is that the balance sheet should reflect the amount of profit or loss for the financial year. However, if a profit and loss account is prepared it does not have to follow any specific format. This situation may lead to difficulties when comparisons between companies are conducted.

4.10.2 Accounting education development in Sudan:

The Anglo-Egyptian condominium opened the Gordon Memorial College in 1902 to meet the needs of government for graduates. The needs for Sudanese accountants became necessary after financial independence from Egypt. Therefore, training accountants in English instead of Arabic was one of the first tasks for the Condominium in accounting education and then to replace the Egyptian accountants. In the early 1940s a secondary school was opened and it was providing courses designed to meet the needs of the labour market at that time. In the late 1940s further training facilities were provided at Khartoum Technical Institute. In the late 1940s the Finance Department selected 25 of its employees to study at Khartoum Technical Institute as British Association of Certified and Corporate Accountants and these officials became the pioneers certified accountants in Sudan.

In 1958 Cairo University-Khartoum Branch was opened as the first educational institute that offered a university degree in accounting. This University was funded by the Egyptian government to cater for students who studied in Egyptian schools in the Arabic Language. However, the courses provided by the university covered all of accounting and its related subjects to meet the needs of both private and public sectors (Albantoni 1994).

After independence the Gordon Memorial College became the University of Khartoum but it began teaching accounting in 1969 for the first time as a preliminary course. It began its degree course after establishing the Business School in 1985. During the 1990s -after the higher education revolution- more than 15 business schools in different states of Sudan were established. These business schools provide the labour market with accountants to work in private and public sectors.

4.10.3 The accounting professional education:

Abdelrahim (2005) explained that accounting professional education aimed to prepare professional accountants. He explained that there are two types of professional education, the first is preparing accountants to sit for professional examinations to be certified accountants, and however, this type is available at Khartoum Technical Institute (currently Sudan University of Science and Technology) and the National Centre for Accounting Studies. The second is the technical type that refers to training of bookkeepers who are working in the middle and lower levels of accountants.

In Sudan, with exception of overseas bodies like ACCA, till the 1980s there was no national organization to look after the interests of the accountant and auditors, to develop a code of ethics or to develop the profession itself. The year 1988 witnessed the entailment of The Sudanese Council of Certified Accountants as the first accounting professional body in Sudan. The law gives the Council the following power:

1- To prepare studies and research for accounting professional development.
2- To prepare a code of ethics and disciplinary measures against violators.
3- To supervise the certification programmes and membership procedures and qualifications.
4- To train accountants and to undertake the preparation and supervision of the Sudanese professional examinations (Albatani 1994).

The membership of Council is also open to accountants who:

1- Passed the Council's three levels examinations and found to be eligible.
2- Have 5 years as working experience as accountant.
3- Have a first degree in accounting from university or polytechnic with three years of experience.
4- Have a membership from one of the recognised bodies in UK such as the Institute of Chartered Accountants in England and Wales (ICAEW) and the Association of Chartered Certified Accountants (ACCA).
5- Have a membership from any similar accounting organisations approved by the Council General Assembly.

As a developing country, Sudan is facing some problems in the system of accounting education, which is affecting the working quality of the graduates. In relation to this issue, Wallace (1990) studied the state of accounting education in developing countries. The study found that only few developing countries have a well established accounting profession. Very few countries carried out research in accounting and in addition many structural, cultural, and historical obstacles to the healthy growth of accounting.

Albantoni (1994) argued that the problems facing accounting in developing countries are found in Sudan and presumably some of the reasons for the weak development of accounting.

4.10.4 Auditing profession in the Companies Act:

Section 138 of the Sudanese Companies Act refers to the powers and duties of the auditors, however, Section 138(1) states that auditors have the right to access to the books, records and accounts of a company. The same Section require auditors to report on the following:

- Whether or not they have obtained all information and explanations they need.
- Whether the balance sheet has been prepared in accordance with the Act.
- Whether the balance sheet shows a true and correct view of the state of the company's position according to the information provided to the auditors.

The statement true and correct in the Sudanese Companies Act is the same concept to true and fair in the UK.

Section 137 of the Act reflected the requirements regarding the qualifications and appointments. The Act does not mention the necessary qualifications for the person carrying out the audit, however, for the purpose of the independence, the Act prevent any company director, partner and any person in the employment of director or officer to act as a company auditor. Furthermore, Section 137(1) explained that every auditor should have a certificate from the Minister of Finance to act as an auditor.

4.10.5 Bodies exercising external auditing in Sudan:

In Sudan, like other countries, two bodies exercise the external auditing function; private audit firms and the General Auditor's Chambers.

4.10.5.1 The General Auditor's Chamber:

The General Auditor's Chamber is responsible for the audit of public owned or semi-owned organisations. The General Auditor's Chamber is an independent body supervising external auditing. The Auditor General is responsible to the Head of the State who appoints him, his deputies and his high level auditors. The Auditor General Law 1986, amended 1990, encompasses 11 chapters including the establishing of the institution, appointment and tenure of the General Auditor and his staff, his authorities and power, General Auditor responsibilities, access to auditees, work performance and report on audits, budget and audit fees. Scope of audits conducted by the General Auditor's Chamber includes all government organisations. These audits are conducted according to the principles and methods of the local and international audit profession. According to Auditor General Law 1990, Chapter (3/7/2 C-D) requires auditors to conduct;

1- Financial and regularity audit, that the General Auditor's staff should perform the audit efficiently in order to ensure that the financial transactions, expenditures and revenues have been carried out and accounted for. Therefore, the Law demands firstly a financial audit in order to ensure that the financial transactions regarding the processes of revenues and expenditure are properly authorised and accounted for. The second issue was a regularity audit that ensures all of the expenditures incurred were in accordance with the authorised budget and in accordance with the accounting, administrative and financial regulations.

2- Performance audit, A.G.L.3/7/D, requires the General Auditor-or his representative- to perform the necessary checks to ensure the optimal use of assets, human and technical resources and the effectiveness of the financial performance to fulfil these goals.

The General Auditor's jurisdiction extends to the following and there are no limitations imposed on this jurisdiction;

- Federal Government.
- Provincial and local governments.
- Bodies not owned but substantially funded by the government.
- Banks whose capital forms part of the federal, Provincial and local government and autonomous bodies substantially funded by the government.
- Entities owned or controlled by Federal Provincial and local governments and other entities owned or controlled by such government owned or controlled entities for a share holding of not less than 20%.
- State joint venture with foreign agencies and other enterprises.
- Audit of receipt of Government.
- Concession granted by the government to agencies for exploitation of public resources.
- Aid or grant provided by Foreign Government.

Currently, the numbers of Sudanese banks whose capital forms part of the federal, provincial and local government is 11 banks; therefore, The General Auditor's Chamber is responsible for these bank's audits.

4.10.5.2 Private audit firms:

For private audit firms, they conduct the external audit function for privately owned enterprises. Furthermore, partners in these firms are members of the Sudanese Council of Certified Accountants and they are under the supervision of the Council. In Sudan, the number of the firms practising the auditing profession is 40 firms, the majority of firms are small i.e. the working force of the firm ranges from 5 to 15 employees including 1 to 2 audit partners. The majority of audit partners obtained their qualifications from different recognised bodies in UK such as the Institute of

Chartered Accountants in England and Wales and the Association of Chartered Certified Accountants. Very few audit partners hold qualifications from USA (CPA) and the certificate of the Sudanese Council of Certified Accountants Examinations Board. Currently, private audit firms audit 15 banks and the rest of the banks by the General Auditors' Chamber (see section 5.11).

Regarding the existence of the big 4 auditors (Pricewaterhouse Coopers, Deloitte Touche Tohmatsu, KPMG and Ernst and Young) in Sudan, these firms are not providing auditing services, however, some of these firms conducted audit assignments in Sudan in the 1880s and 1990s (for example Pricewaterhouse audited Kenana Sugar Company) (Ahmed 2000).

4.11 Internal auditing development:

The development of internal auditing in Sudan can be traced through three separate historical stages.

4.11.1 Stage One:

Brierley et al (2001) argued that prior to 1987, the internal audit function in Sudanese organisations was rudimentary. However, this year (1987) witnessed the establishment of internal audit departments in ministries, public sector organisations, public owned banks and banks whose capital forms part of the government. The Ministry of Finance and Economic Planning (MFEP) provided new posts for internal auditors –who were selected from government accountants- to work in public sector organisations. For the purpose of training the internal auditors, the Institute of Accounting Studies in Khartoum was selected by National Chamber Accounts' (NCA) to conduct one-week intensive training courses sessions in principles of internal auditing. Then, the participants are allocated to their organisations to work as internal auditors.

On 13 July 1987, the under-secretary of the (NCA), which is a part of (MFEP) issued a Circular to all public sector organisations (MFEP, NCA, 1987 b) including the seven government banks at that time. This Circular specified the scope and responsibilities of internal audit. As explained by the Circular, internal auditors, in general, have to carry out the following duties:

1- To ensure the legitimacy of revenues and expenditures, relevance of plans and budget targets, and compliance with rules and regulations. Furthermore, it is the responsibility of internal auditors to conduct audit duties and check the necessary documents before the actual expenditure take place.

2- To reconcile the bank accounts on a monthly basis.

3- To review and report on the efficient use of the organisation's available resources and report to management any deficiency or irresponsible use of public resources.

4- To review the inventories, and report to the management the storage method and the stores condition.

5- To ensure that the balances of all accounting books in which all financial transactions and activities are recorded are equal to those on the monthly accounts and final accounts or any other information extracted from them.

6- To carry out both systematic and surprise checks on cash deposits to ensure that all money received are recorded correctly and kept in the treasury department of the unit or deposited to the bank account of the unit without delay.

7- To ensure that the recommendations and comments of the General Auditor's Chamber on the accounts are dealt with promptly.

The Circular required the director of the internal audit department to be responsible and report to the chief accountant of the organisation. In summary, the main purpose of the Circular in this stage aimed to establish independent internal audit departments.

Regarding the 1987b Circular, the researcher noticed the following issues:

The MFEP selected the accountants from different sectors to work as internal auditors based on their previous experience as accountants, in addition to the very short training course in principles of internal auditing. This confirms that these departments started its work with very poor abilities in terms of competence and experience.

According to the Circular, it can be argued that the work of internal auditors was just to review the financial and accounting performance, i.e., to ensure the financial controls over the financial performance of the organisations. This concept is not consistent with concepts of modern internal auditing.

According to the Circular, the internal audit directors in these organisations report to the chief accountants, therefore, this low level of reporting may affect the internal auditors' independence factor.

In this Circular there was little about the definition of the duties and powers of internal auditors. It can be noticed that the Circular ignored the selection procedures and the qualifications of the internal auditors.

4.11.2 Stage Two:

After two years that followed the establishment of internal audit departments in government organisations, it was decided that the internal audit department of the unit and the organisation should submit its reports to the responsible minister. For example government banks should submit their reports to the Ministry of Finance and Economic Development (Decision dated 23.8.1989 the Council of Ministers).

The Council of Ministers' Decree No. 62 dated 23 August 1989, explained that internal audit reports should be addressed to the minister responsible for the relevant organisation or units within an organisation. The Decree stipulated that each internal audit department in government organisations should be under the direct supervision of the minister of the department to which the organisation was responsible.

The Decree identified three types of submitted reports that are general, routine and special reports. General reports were concerned with the overall compliance with regulations and the evaluation of the organisation's financial policies and controls. Routine reports aimed to indicate the financial performance of each unit in the organisation, this report should be submitted on regular basis (quarterly). Special reports deal with specific activities or an investigation of suspected financial activities, these reports should be addressed to the authority that sanctioned the investigation. As a result of that the, the NCA issued a directive to all government organisation requiring that both general reports and special reports be submitted to the minister responsible for each relevant unit, with a copies to be submitted to the NCA and the General Auditor's Chamber (GAC). The routine reports should be addressed to the general manager within the organisation, with copies submitted to the relevant minister and the GAC.

From the researcher point of view, this decision gave the internal audit department a sort of independence in terms of the reporting level of the minister. This is a better situation when it is compared with the first stage in which they report to the chief accountant of the unit. In contrast with the researcher's opinion, Brierley et al (2001:80) suggested that ministers might be unqualified to understand and evaluate the reports submitted by internal auditors or too busy to evaluate the reports. It is also suggested that in most of cases the ministerial posts are political ones rather than professional ones.

4.11.3 Stage Three:

In 1997, a major change occurred to the internal audit practice in Sudanese public sector organisations. In this year the National Accounting Chamber issued the Internal Audit Practising Manual and established the Financial Committee. The main objective of the Financial Committee is to supervise the internal audit function in public sector organisations. The Minister of Finance and Economic Planning chairs the committee. Other members include the Chair of NCA, representative of GAC and the head of Internal Auditing Administration at NCA.

The Financial Committee conducts its meetings on a regular basis, however, the main duties and responsibilities of the committee are:

1- To supervise the work of the Internal Audit Administration at the NCA, in terms of the Administration's work performance and its routine reports.
2- To discuss the internal audit reports with the internal audit directors of units and organisations.
3- To assist the GAC auditors to obtain the required information and facilitate their work in units and organisations under audit.
4- To take the necessary corrective actions for errors and fraud cases according to the internal audit reports.
5- To issue an annual report to the Federal Minister of Finance and Economic Planning including the results of internal auditing of organisations and units.
6- To ensure the application of Internal Auditing Standards.

The existence of Audit Practising Manual and the Financial Committee increased the independence and creditability of internal audit function in government organisations, as the members of the committee are completely independent from any duties in addition to the existence of manual that describes the work procedures.

Furthermore, Abdelaziz (2001) noted that most of private banks-beside the public owned banks and shared banks- were adapting the Audit Practising Manual according to their internal auditing needs. In other words, each bank operating in Sudan has its own internal audit manual. Some of these manuals were adapted from the Audit Practising Manual.

4.12 Internal auditing outsourcing:

Internal auditing has historically considered as an integral part of the organisation's risk assessment, control and governance structure. Selim and Yiannakas (2000) viewed the term outsourcing as a relatively new term but they considered that internal audit function as one of the newest, traditionally in-house function that are now being targeted for outsourcing. Geiger et al (2002) expressed that the 1880s and 1990s have witnessed the internal audit function outsourcing to the external auditors, therefore, many external audit firms created their own business units to market and deliver internal audit outsourcing services. In Sudan, the concept of outsourcing the internal audit function is not a common issue for organisations as they rely on internal audit departments to deliver the internal audit function. The survey and interview results in Sudanese banks indicated that all of Sudanese banks maintaining internal audit departments and none of these banks outsourcing the internal audit function to external auditors.

4.13 Summary:

The purpose of this chapter was to shed light on the characteristics of the Sudanese business environment in which this study is conducted. Internal audit practices and roles are shaped by the economic and business environment within which it is practised with attention to the Sudanese banking sector and the internal controls applied within this sector. Therefore, this chapter highlighted a set of features that may have played some role in the business environment of Sudan. However, different historical, political and economic factors have been discussed, emphasising the major changes in the Sudan at the end of the 1990s.

The next chapter will discuss in details the methodology conducted to carry out this current study, including the quantitative method of the questionnaire survey and the qualitative method of interview.

CHAPTER FIVE
THE RESEARCH METHODOLOGY

5.1 Introduction:

This chapter develops the research methodology and methods employed in the study. The next section has discussed the research strategy. The study has used both quantitative and qualitative methods; therefore, the philosophical assumptions that guide the research were discussed in order to justify the methodology of the study. However, the research methods adopted (questionnaire survey and interview methods) are then discussed with detailed procedures of each. The pre-study investigation of the study questionnaire, which conducted with academic personnel in Sudan and with bank internal auditors and external auditors responsible for bank audits', is then presented. Finally, the chapter highlighted the difficulties of conducting interviews in Sudan compared to questionnaires.

5.2 Research strategy:

Burns (2000:3) defined research as "a systematic investigation to find answers to a problem". Sekaran (2003:5) defined business research as "an organised, systematic, data-base, critical, objective, scientific inquiry or investigation into a specific problem undertaken with the purpose of finding answers or solutions to it". It can be noticed that the two definitions have the same meaning in terms of finding answers and solutions to specific problems.

It can be argued that social research is a method of understanding and makes connections between actions, experience and change. In this sense, Gilbert (1993) explained that good social research should include three main ingredients: the construction of theory, the process of data collection and the design of methods for gathering data. Therefore, the first element that should be taken into consideration is the research strategy that is available to the researcher and the tactics for the work in hand. However, the research strategy could be a general plan of how to answer the research questions. It should include clear objectives that are derived from the research questions (Remeniy et al 2002). Remeniy et al (1998) argued that setting and choosing a research strategy that accompanied the tactics of the research is considered as the most important step in the initiation of the research work. They added that the researcher should first decide that if the research is theoretical or empirical. Remeniy et al (2002) differentiate between strategy and tactics. However, the first refers to the overall approach adopted while the second one is about the specific details of data collection and analysis, therefore, the existence of the research strategy would allow researchers to ensure a conceptual framework for their studies.

5.3 Research paradigms:

Collies and Hussey (2003:3) used the term paradigm to the progress of scientific practice based on people's assumptions about the world and the nature of knowledge. They identified two main research paradigms, positivist and phenomenological paradigms. The philosophies behind the two paradigms are different. These differences are summarised by Cassell and Symon (1994:2) when they mentioned "the assumption behind the positivist paradigm is that there is an objective truth existing in the world which can be revealed through the scientific method where the focus is on measuring relationships between variables systematically and statistically". While Hollway (1991) argued that the quantification is at the heart of social sciences' claim to scientific method. The key concerns are that measurement is to be reliable, valid and generalizable in its clear predictions of cause and effect.

5.3.1 Positivistic paradigm:

Denscombe (2001:299) defined positivism as "an approach to social research which seeks to apply the natural science model of research to investigations of the social world". This approach assumes that there are clear patterns and regularities, causes and consequences in the social world, just as there are in the natural world (Denscombe 2001). More recently, Bryman (2004:11) defined positivism as "an epistemological position that advocates the application of methods of the natural sciences to the study of social reality and beyond". The above two definitions highlighted the idea of applying the methods used in the natural sciences in social sciences. Easterby-Smith et al (2002) argued that the main idea of positivism that the social world occurs extremely and therefore its properties should be gauged through objective methods rather than being inferred subjectively through sensation, reflection or hunch.

According to the positivists, this approach provides the basis for explanation, permits the anticipation of phenomena, predict their occurrence and therefore allow them to be controlled. However, explanation includes the process of establishing causal relationships between the variables by establishing causal laws and linking them to a detective or integrated theory (Collis and Hussey 2003).

Scott (1997) suggested that positivists believe that there are no meaningful differences between natural and social sciences methodologies. In line with this argument Collis and Hussey (2003) suggested that positivism is founded on the assumption that studies conducted in human behaviour should be conducted in the same way as studies carried out in natural sciences, so it attempts to place social research in the same realm as scientific research.

However, positivism was criticised by some authors. It was argued that establishing a relationship between variables depends on defining these variables. They explained that it is not possible to treat subjects as being separate from their social environments and they cannot be understood without examining the perceptions they have of their own activities (Remenyi 1998 and Mashat 2005). Furthermore, Collis and Hussey (2003) also criticised positivism in terms of researchers' objectivity, in particular, the part of what they observed. It is argued that researchers introducing their own interests and values to the research.

5.3.2 Phenomenological paradigm:

Collis and Hussey (2003) refer the term phenomenology to the science of phenomena. They explained the word phenomenon is derived from the Greek verb to appear or show. Allan (1991:893) defined a phenomenon as "a fact or occurrence that appears or is perceived, especially one of which is the cause in question".

It is argued that the phenomenological paradigm to research needs to be contrasted with the positivistic methods. In contrast with positivists-beside the basic belief that the world is socially constructed and subjective-, the phenomenologists do not see the world as consisting of an objective reality. According to the phenomenological paradigm, researchers are mainly focusing on the meaning rather than facts, try to understand what is happening, look at the totality of each situation and develop ideas through induction from evidence (Remenyi et al 2002).

However, Cohen and Manion (1987) considered it as a theoretical point of view that helps in studying the direct experience taken at face value and one that sees behaviour as determined by the phenomena of experience rather than by external, objective and physically described reality. Therefore, Remenyi et al (1998) suggested that the phenomenological paradigm is increasingly accepted among business and management scholars and considered to be suitable for this type of research.

The phenomenologist believes that the world can be modelled, but that should not be in a mathematical method, they believe that a verbal, diagrammatic, or descriptive model could be acceptable (Remenyi at al 1998).

The phenomenological paradigm is described to be a qualitative method that stresses the subjective aspects of human activity that focuses on the meaning rather than measurement of social phenomena. It is suggested that this approach described as the descriptive/interpretive method and stipulates that every event should be studied in a unique incident in its own right (Remenyi et al 1998, Collis and Hussey 2003; Mashat 2005).

5.4 Quantitative research method:

One of the most important benefits of quantitative research is the requirement that the sample used in the study reflects the attributes of the population under study. The findings produced by the study relate to the whole population and therefore, the conclusions drawn could be pertinent to the population (Sarantakos 1998). This attribute of social sciences is known as representativeness. Beside the representation issue, quantitative methods have the advantage of using standardized measurements. This argument was supported by Patton (1990:14) when he mentioned "quantitative methods entail the use of standardized measures so that the varying perspectives and experience of people can fit into a limited number of predetermined response categories to which numbers are assigned".

In this study, to test the research hypotheses, a quantitative research method will be employed in form of a questionnaire survey.

5.5 The research approach:

As explained earlier, the main objectives of the research are to highlight the views and perceptions of internal auditors of Sudanese banks and external auditors responsible for bank audits regarding the following issues:

(1) To test the views of internal and external auditors and to find out whether there are differences in the views between the two groups regarding the following issues:

a) Objectivity of internal audit departments at Sudanese banks.
b) Competence of internal audit departments at Sudanese banks.
c) Work performance and monitoring of internal controls at Sudanese banks.

(2) To examine the role of demographic variables (educational level, experience in auditing, experience in internal auditing, the numbers of internal auditors in the internal audit departments, auditors' occupation, auditors' sector and gender) in relation to their evaluations of:

a) Objectivity of internal audit departments at Sudanese banks.
b) Competence of internal audit departments at Sudanese banks.
c) Work performance and monitoring of internal controls at Sudanese banks.

(3) To evaluate the degree of reliance placed by external auditors on the work of internal audit departments.

An additional aim of the research was to test the hypotheses of the study. Silverman (1993:1) defined hypotheses as "a testable proposition". Sekaran (2003:103) defined hypotheses as "a logically conjectured relationship between two or more variables expressed in the form of a testable statement". However, Saunders et al (2000:386) mentioned that "the appearance of an apparent relationship or connection between categorises will need to be tested if you are to be able to conclude that there is an actual relationship". According to Sekaran (2003) studies that involve hypotheses testing usually explain the nature of certain relationships or establish the differences among groups. The hypotheses were designed to test the differences among the study groups. The hypotheses tested were mainly related to the variables of the study, in other words, objectivity, competence, work performance and monitoring of internal controls and reliance decisions made by external auditors on the work of internal auditors. The study variables were split by the demographic data such as educational background, years of experience in auditing, years of experience in internal auditing and the numbers of internal auditors in the internal audit departments in the banks. Furthermore, auditors' gender, auditors' occupation and auditors' sector were split by the same set of variables. In summary, in order to test the hypotheses of the study, the questionnaire demographic data was split by the variables of the study (for more details see chapter 5).

5.6 The questionnaire survey:

As explained above, the main objectives of the research are to highlight the views and perceptions of internal auditors of Sudanese banks and external auditors responsible for bank audits regarding the variables of the study.

For exploratory purpose, in this type of research, an empirical work is considered to be important. Therefore, the researcher used the questionnaire survey method as a questionnaire was determined to be the most efficient and economical method of collecting data. Saunders et al (2000:278) considered questionnaires as a general term to include all techniques of data when respondents are asked to respond to the same set of questions in the same order. In the same vein, Collis and Hussey (2003:173) argued that questionnaires are related to positivistic and phenomenological methodologies. They defined a questionnaire as "a list of carefully structured questions, chosen after considerable testing, with a view to eliciting reliable responses from a chosen sample. The aim is to find out what a selected group of participants do, think or feel". In the same context, Sekaran (2003:236) defined a questionnaire as a "preformulated written set of questions to which respondents record their answers, usually within rather closely defined alternatives". Sekaran (2003) viewed the questionnaire tool as the most efficient and important one in collecting data when the researcher exactly knows what type of information he needs and how to measure the study variables. The next section will review the types of questionnaires in general and the ones used in the study.

5.7 Types of questionnaires:

In order to collect the needed data for the purpose of testing the research hypotheses, the researcher conducted a survey covering the internal auditors in Sudanese banks and the external auditors in charge of bank's audits. Haimon (1998) explained that the processing of survey data through advanced analytical methods has been one of the foremost means of social investigation. However, the idea of conducting a survey starts with the desire to measure some characteristics of a population. Thus, a survey can be useful to describe a population and constructing models for analysis, for this reason the data gathered through a questionnaire can be used for both descriptive and analytical uses.

Gilbert (1993:95) stated that "sociologist also regard surveys as an invaluable source of data about attitudes, values, personal experiences and behaviour. Researchers use face-to-face or telephone interviews or postal questionnaires". Jankowicz (1995) argued that researchers carry out a survey to get views of what people think, believe, value or feel, in order to discover these views for their sakes, or to support an argument that they are presenting.

There are some alternative ways to conduct a survey. Among these methods are telephone interviewing, mail questionnaires and self-administered questionnaire. Each of these methods has advantages and disadvantages; therefore, the following sections will highlight theses methods and reflect the advantages and disadvantages of each one:

4.7.1 Telephone interviewing:

The telephone interview costs approximately half what a face-to-face interview costs (Dooley 1990). Czaja and Blair (1996) explained that telephone numbers can be selected in different ways. It could be done through random selection from a phone book or created by using an existing telephone number and dropping one or more of the last four digits and substituting random numbers.

Advantages include:

- Random digital dialling sampling of general population.
- It gives the researcher better chances of accessibility to interviewees when compared to personal interviews.
- Lower cost than personal interviews.
- Shorter data collection periods.
- In terms of research administration, it is has the advantage of easy administration when compared with a mail survey.
- It needs smaller staff to conduct the survey.

Disadvantages include:

- It is less reliable in case of sensitive questions.
- Non-response associated with random-digit-dialling sampling is higher than personal interviews.
- Telephone interviewees may produce more missing data on income questions.

- If the questions are long and complicated, respondents will face some difficulties.

5.7.2 Mail questionnaires:

This type of questionnaires requires the researcher to send questionnaires and covering letters by mail to the population. Researchers usually provide participants with a prepaid envelope. This type of questionnaire is considered to the most common method as many researchers use it. Sarantakos (1998) explained that the main characteristic of this method is that respondents offer data with limited interference on the part of research personnel. The main advantage of this type is the low cost and it saves time compared to other techniques such as interviews and self-administered questionnaires (Hakim 1987, Sarantakos 1998; and Sekaran 2003). Other advantages of mailed questionnaires could be categorised as follow:

- Can offer a considered and objective view on the issue, i.e. give the respondent the opportunity to consult their files and colleagues as many respondents prefer to write than to talk about certain issues.
- Can be completed at the respondent convenience, in other words, at their homes and at their own pace.
- Can promise a wider coverage, considering that researchers can approach subjects more easily than other methods.
- The use of mailed questionnaires may reduce the possibility of bias that caused by the presence or attitude of the interviewer.

There are some disadvantages of mailed questionnaires (for example see Sekaran 2003, Collis and Hussey 2003; and Saunders et al 2003). However, they categorised the following disadvantages:

- Researchers will not be confident that the right person has responded to the questionnaire because the respondent's identity and the conditions under which the questionnaire was answered are unknown.
- The possibility of a low response rate and as a result, it would be very difficult to establish representativeness of the sample because the respondent may not at all represent the population they are supposed to.

Furthermore, one can argue that Sudan as a developing country has a very poor postal system. As result researchers in Sudan rarely rely on mailed questionnaires.

5.7.3 Personally administered questionnaire:

Collis and Hussey (2003) considered that personally administered questionnaires as one of the best tools for data collection. In line with Collis and Hussey (2003), Sekaran (2003) viewed personally administered questionnaire as an effective method, if the survey is confined to a local area and the researcher wants to target a group of respondents at their place.

In highlighting the advantages of personally administered questionnaires, Collis and Hussey (2003) and Sekaran (2003) suggested the following advantages:

- Researchers can collect the completed responses within a short period of time, so it can be argued that this type of questionnaire offers a high response rate and minimises interviewer bias.
- If there are any doubts raised by the respondents, the researcher or a member of the research team could clarify them on the spot.
- The researcher can introduce the research topic to the participants by explaining the research themes, encourage and motivate them to respond frankly.
- Administering questionnaires to large numbers of respondents at the same time is less expensive and consumes less time than interviewing.
- It does not need much skill to administer the questionnaire as to conduct interviews.
- It gives the researcher the opportunity to check the completeness of the questions in the questionnaire.

Disadvantages can be summarised as:

- It is more costly than other methods, in particular, when carrying out a survey to a large number of participants who are geographically separated or abroad.
- Respondents may hesitate to respond to sensitive issues.

The current study employed two types of questionnaires; personally administered and mailed questionnaires (see the questionnaire procedures, Section 5.11).

5.8 Relevance of questions to the research objectives:

One of the most major problems of designing a questionnaire is the formulation of questions. In this aspect, it is suggested that all questions should be relevant to the objectives of the study, however, the researcher considered the following:

(1) Each item in the questionnaire should have a certain role in the study. In other words the purpose of each question should be clear in order to fulfil its purpose. Furthermore, every group of questions in each scale of the four scales aimed to test a certain variable.

(2) Before including an item in the questionnaire, the way it was to be analysed, the statistical techniques to be used and the manner in which it was to be published or presented were decided.

5.8.1 The sources of the ideas for the questionnaire:

The main sources of ideas for questions were mainly derived from an extensive review and analysis of the existing literature regarding the following issues:

1- Objectivity of internal auditors.
2- Competence of internal auditors.
3- Work performance and monitoring of internal controls of internal auditors.
4- Reliance decision on the work of internal auditors by external auditors.

Many materials used in this questionnaire were adapted from Messier and Schneider (1988) Tiessen and Colson (1990) work.

5.8.2 The rationale for questions:

The final version of the questionnaire was divided into two sections; the first section included the demographic data while the second section was designed to test the four main variables of the study. The main purpose of this survey is:

1- To collect opinions of both the internal auditors in Sudanese banks and external auditors in charge of each bank's audit regarding the three factors of the model (objectivity, competence, and work performance and monitoring of internal controls).
2- How these three factors affect the reliance decision of the external auditors to use the work of internal auditors.

The first section serves to characterise the respondent and gather demographic data, such as their gender, their classification -internal or external auditors-, their experience, and the qualifications of the respondents. It includes other information related to the internal auditors in the banks such as the numbers of internal auditors in the bank, the internal auditor experience in the area of internal auditing in the bank, and who decides the items included in the annual internal auditing plan.

The objective of the second section was intended to investigate the attitude of respondents regarding the strength of the internal audit function in Sudanese banks; furthermore, to examine to what extend the external auditors responsible for banks' audits are relying on the work of internal auditors. This section contained four parts to measure the objectivity, competence, work performance and monitoring of the internal controls. Both the internal and external auditors answered the first three parts, and the last part of the questionnaire was answered by external auditors to measure their evaluation of the internal audit function and the degree of reliance on the work of internal audit departments.

The first part attempted to examine the participants' views regarding the banks internal audit department's objectivity by taking the views of internal and external auditors. In this part objectivity was addressed by:

- Administrative and reporting levels of the internal audit department.
- Freedom from conflict of interest of internal audit staff.
- The form of frequency of the departmental reporting to the bank's board of director.

Previous research (for example, Abdel-Khalil et al 1983 and Burnaby et al 1994) had concluded that the reporting level of the internal audit department was an important factor in determining the external auditor evaluation of the internal audit department. This questionnaire differentiates between reporting level and administrative level. Reporting level refers to the highest level in the bank to which the department reports. Administrative level refers to the level of the internal audit department in the management hierarchy of the bank (for more details, see chapter two).

The second part attempted to test the participants' perceptions regarding the competence of the internal audit departments by taking the views of internal and external auditors. In this part, competence was reflected by education, experience and the certification status of the internal audit department staff. The staff department relations with other employees and the supervision over the activities of the department staff were also evaluated.

The third part was designed to test the attitudes of internal and external auditors towards work performance. Work performance was addressed by different ways to highlight the different concepts of internal audit activities. However, performance is influenced by planning the audit, examining and evaluating information gathered, communicating results, and follow up to check whether corrective actions were taken on the report of audit findings. In this section the researcher reused the three dimensions used by Tiessen and Colson (1990) to evaluate the work performance of internal auditors. One dimension was the extent of internal audit coverage. The second dimension explained how an internal audit department engaged in internal audit activities. The third dimension was the degree to which the internal audit department is oriented towards operational auditing as opposed to financial auditing and internal control assessment.

The fourth part was designed to measure the views of external auditors regarding their reliance on the internal audit function in Sudanese banks; therefore, only external auditors completed this part. In this part, the statements in the questionnaire attempted to test the relationship of specific competence, objectivity, and work performance criteria measures obtained from external auditors related to their overall evaluation. Therefore, the researcher used the independent variables which were used by Tiessen and Colson (1990) and adapted them for this study. The variables were:

- The organisational level to which the director of internal audit reports.
- The existence of internal audit manual.
- The internal audit staff competence, e.g. educational background, experience, training.
- The degree of control and supervision within the department.
- The ability of internal audit staff to have access to the company's records, documentation and personnel.
- The quality of internal audit programmes.
- The quality of working papers.
- The degree of internal audit coverage.
- The degree of response to internal audit reports issued by the departments.

- The knowledge of internal audit staff of operations and procedures of the bank.
- The knowledge of new techniques of the internal audit profession.
- The existence of continuing education programmes and training of internal audit staff.

5.9 The process of the questionnaire design:

Depending on the type and size of a survey or a study the researcher should develop questions and design a proper questionnaire that would facilitate the entry and statistical analysis of the collected data.

The first stage in carrying out a survey is the questionnaire construction, the respondents will be asked, what questions will be asked and questions wording. One of the most important elements is to ask the right questions and constructing them in the right order and format.

The design of the questionnaire was based on an extensive literature review to compare and assess the questionnaire with other questionnaires developed by other researchers. However, the validity and reliability of the data collected and the response rate achieved depend, to a large extent, on the design of questions, the structure of questionnaire and the rigour of the pilot testing (Saunders et al 2003). In this aspect, Sekaran (2003) explained that questionnaire design should focus on three areas. The first deals with wording of the questions. The second relates to the process of planning of how the study variables will be categorised, scaled, and coded after receipt of responses. The third refers to the general appearance of the questionnaire and pre-testing process.

5.9.1 The wording of questions:

It is important that each survey questions will need careful consideration to ensure that the responses are valid. Sekaran (2003) suggested that the questions asked, the language used and the wording should meet the respondents' attitudes, and perceptions. Saunders et al (2003) suggested the following guidelines for wording questionnaires:

1- The questions should be clear, straightforward, and use simple language and common concepts, most importantly, words used in questions should be familiar. Every effort was made to use simple, straightforward and familiar terms.

2- Spelling out exactly what was precisely required from each question, a set of questions or a scale. The study questionnaire considered this issue.

3- Avoidance of biased questions. A biased question is a question that makes one respondent response more likely than another, regardless of the respondent's opinion. Therefore, the study questionnaire avoids biased questions as much as possible.

4- Make sure that the questions are short and direct, because long questions are difficult to understand and consume the respondent's time and make the respondent less willing to participate, and indirect questions increase the probability of the question being misunderstood. This questionnaire used short and direct questions as well as avoiding indirect questions.

5- Avoidance of leading questions, this type of questions defined by (Kumar 1999:120) as "one which, by its contents, structure or wording, leads a respondent to answer in a certain direction". Therefore, employing emotive suggestive language or the way a question is rephrased can lead the respondents to answer questions in one way. Thus, this questionnaire attempted to ensure that phrasing questions in such a way was avoided.

6- Avoidance of ambiguous wording, using familiar terms that allow all respondents to understand them in the same way. Every effort was made to use simple and familiar terms.

7- On the one hand, questionnaires should avoid the usage of negative questions because negative questions may confuse the participants specially when asking them to indicate whether they agree or disagree. On the other, it was suggested to include some negative questions (Sekaran 2003). In the study questionnaire, very few negative statements were used.

5.9.2 The order and the flow of the questions:

It can be argued that a well-sequenced questionnaire enables rapport to be built between respondent and researcher, as a result encouraging questions to be completed. The sequence of the questionnaire should follow the "funnel" approach, i.e. the sequence of questions should consider that the respondent is led from the general questions to specific questions, and from relatively easy questions to those that are progressively with more difficulties (Sekaran 2003). Therefore, in constructing the study questionnaire, a few rules had to be taken into account before the completion of the final draft. These include:

1- Group questions on similar topics into sections in order to facilitate the process of structuring the questionnaire and provide a flow. Therefore, the questionnaire was split into two parts; the first dealt with the demographic information. The second part consisted of four sections (scales).
2- Broad questions that are followed by questions that were determined by the respondent's initial response.
3- Start with questions that respondents will prefer to answer.
4- Begin with easy questions and reflect that the purpose of the questionnaire was interested in the respondent's views rather than testing their knowledge.
5- Make sure that the study questionnaire questions are relevant to the respondents.
6- Minimise the usage of open-ended questions, and place them at the end of the questionnaire.

5.9.3 The type of questions:

One of the important steps in questionnaire designs how to choose the type of questions. Types of questions refer to whether the question will be open-ended or closed questions (Sekaran 2003), therefore, each type has its advantages and its difficulties. Remenyi et al (2002) argued that open-ended questions are suitable for exploratory studies where the researcher is not in a position or is not willing to pre-specify the response categorise. Regarding the advantages of open-ended questions, it allows the respondents to give more information and give their personal opinions in their own words. These questions allow respondents to answer questions in any way they want, in addition, open-ended questions are easy to ask. The main disadvantage of open-ended questions is that they require the respondents to spend time on giving a full answer to the question; therefore, this type of questions may deter busy respondents from replying to the questionnaire because they need time and effort to answer. Moreover, they require more paperwork and make the questionnaire appear longer and as a result may affect the response rate. Finally, the analysis of open-ended questionnaire is more difficult and the information collected may lead to a collection of worthless and irrelevant information (Remenyi et al 2002, Sekaran 2003, Collis and Hussey 2003).

In contrast, close-ended questions, respondents' answers are selected from a number of alternatives. These questions would ask the respondents to make choices among a set of alternatives given by the researcher. These types of questions require exploration before their construction, to take into consideration all possible answers. The difficulties of close-ended questions that they are difficult to design. Vaus (2001) explained that close-ended questions may create false opinions in the form of providing a limited range of options from to which to choose or by encouraging the respondents with acceptable answers. Moreover, respondents may get frustrated by not stating their views in the way they want (Denscombe 2003). However, these questions are convenient for collecting data, easy to answer code, and analyse as the range of answers are limited. Furthermore, a large number of questions can be asked; therefore, this approach of questions is useful when the motivation of respondents is not high. Moreover, this approach encourages respondents by giving the impression of timesaving. Finally, the answers are standard and can be compared from one person to another.

The main type used in the construction of study questionnaire was close-ended questions.

5.9. 4 Scaling process:

Sekaran (2003:185) defined scale as "a tool or mechanism by which individuals are distinguished as to how they differ from one another in the variables of interest to our study. The scale or a tool could be a broad one in the sense that it would only broadly categorised individuals on certain variables, or it could be a fine-tuned tool that would differentiate individuals on the variables with varying degrees of sophistication".

The study questionnaire used different styles of close-ended questions. For example, the questionnaire used some of the closed questions such as dichotomous questions that offer only two fixed alternatives that respondents must choose one of them. Such questions are about the respondents' gender. Others were multiple choice questions that offer a range of alternative answers from which the respondent has to choose from, these include, age, qualifications, experience in auditing and internal auditing and the number of internal auditors in the internal audit departments. There were multiple-response questions to allow respondents to choose many answers. The respondents were asked to tick as many alternatives from a list including the individuals who decide what items are to be included in the annual internal auditing plan of the bank.

Ordinal scales are used when the respondent is asked for responses in the form of a rank ordering as the evidence is put into categories. The numbers assigned indicate the ordering of the categories (Remenyi et al 2002). In this questionnaire, external auditors were asked to rate the following items objectivity, competence and work performance according to its importance in relying on the work of internal auditors in Sudanese banks.

In the main parts of the questionnaire participants were asked, according to their insights and perceptions, to state the extent to which they agreed or disagreed with the statements provided in the four scales of the study (objectivity, competence, work performance and monitoring of internal controls and the reliance decision placed by external auditors on the work of internal auditors). They were asked to circle one of the five boxes on a five-point scale that ranged in agreement from (1) strong disagreement to (5) strong agreement. Therefore, an interval scale is found to be suitable for this study. A Likert-type scale is employed in this study. This type of scale suggested that every statement in the scale has the same attitudinal value, weight or importance in order to reflect an attitude towards the issues examined by the scale (Sekaran 2003).

5.10 The pilot procedures of the questionnaire study:

Remenyi et al (2002) explained that pre-testing of the questionnaire should be conducted before the final administration. The main objective of pilot work of the questionnaire is to avoid any shortcomings in the design and administration of the questionnaire. However, they argued that the approaches to pre-testing could be an informal one that involves consultation with friends, colleagues and experts or it could be more formal involving a pilot study which is a replication, on a small scale on a small scale of the main study. In line with Remenyi et al (2002), Sekaran (2003) stressed the importance of pre-testing the instrument used in a survey to ensure that the questions are understood by participants. There is no ambiguity in the questions, as well as there are no problems in wording and measurements used. Oppenheim (1992) listed the following aims for conducting a pilot study:

1- To test the reliability and validity of the instrument to avoid any future problems.
2- To ensure the accessibility to the study participants.
3- To confirm the future co-operation with the participants.
4- To test the methodological techniques.

A number of procedures were employed before conducting the final survey. The first step in piloting the questionnaire involved the first draft of the questionnaire being formulated in the English language. It was presented to the supervision team to give their comments on the questionnaire as well as my colleagues (PhD students and PhD holders).

In the second stage, the questionnaire was translated into Arabic with a help of expert colleagues in Arabic and English languages. The translated draft was discussed with PhD students whose native language is Arabic. The two copies, English and Arabic versions were sent to four academic staff in Sudanese universities. Some amendments were made to the Arabic version. At a later stage the Arabic translation of the questionnaire was then translated back into English by the same expert colleague in Arabic and English languages. After comparing the latter English version of the questionnaire with the original, the researcher was satisfied with the accuracy of the translated version.

The last step of pre-testing the questionnaire was the pilot study. The data used for this pilot study was collected from two sources, the internal auditors at the banks and the external auditors in charge of each bank's audit. For the internal auditors, the sample included directors of the departments and the internal audit staff with different levels of experience in the department. The sample of external auditors included partners, managers, senior staff and junior staff at the accounting firms and the General Auditor Chamber auditors-the body responsible for government banks audit. In a field visit to the six Sudanese banks, the pilot study was conducted. The banks selected for the study were, one public sector bank "owned by the government"; the Bank of Khartoum, three joint partnership banks; Saudi-Sudanese bank, French-

Sudanese Bank and Blue Nile-Mashreq bank, one private bank Alshamal Islamic bank and a branch of a foreign bank, the Bank of Abu Dhabi.

At this stage, 42 questionnaires were distributed to the internal auditors at the six banks and external auditors at five accounting firms and the General Auditor Chamber (22 to internal auditors and 20 to external auditors). Thirty-seven questionnaires were usable- only three were not completed and two were not returned to the researcher. The final usable questionnaires were 20 questionnaires for internal auditors and 17 questionnaires for external auditors, with a total of 37, i.e. 88% of the total number of questionnaires (42). Regarding the internal auditors at banks, all of the questionnaires were distributed by the researcher to the directors of internal audit departments and then they distributed the questionnaires to their staff. The internal and external auditors were asked to fill in the Arabic version of the study questionnaire. They were asked to write their comments and suggestions regarding the questionnaire's clarity, answering options, layout and length.

All respondents, except three, reported as requested, the time taken to complete the questionnaire. Most of the respondents reported that it took between fifteen to twenty five minutes, with an average of 20 minutes.

In general, the findings on the layout and completion of the questionnaire can be summarised in the following three points:

1- There were no complaints regarding the length of the questionnaire from the respondents.
2- No complaints were passed to the researcher about the questionnaire's clarity and layout.
3- There were no complaints regarding the 5-point scale.

The data collected from the pilot study were analysed using the SPSS computer program to test the appropriateness of these scales to measure the study variables. The tests used in this study were t-test and Analysis of Variance (ANOVA) with a level of significance of $p = .005$.

5.10.1 Reliability analysis:

The reliability analysis is the first step in the quality control of conducting research relying on primary sources of data collection such as a questionnaire. It allows studying the properties of measurement scales and the items that make them up. The reliability analysis procedures calculate a number of commonly used measures of scale reliability and also provide information about the relationships between individual items in the scale. Interclass correlation coefficients can be used to compute inter rate reliability estimates. Hence, by using reliability analysis, the extent to which the items in the questionnaire are related to each other can be determined, so we can get an overall index of the reliability or the internal consistency of the scale as a whole. Using the reliability analysis can identify problem items that should be excluded from the scale. In this analysis Cronbach's Alpha was used, because of its relevance to a questionnaire based on the Likert five-point scale, and measures the internal consistency of the questionnaire, based on the average inter-item correlation of the items.

Table 5.1 Reliability analysis Cronbach's Alpha

Summary of the Item-Total Statistics

Measurement	No. of Items	Cronbach's Alpha	Cronbach's Alpha After Deleting Some Items	Total Items After Deleting	Items Deleted
Measurement No. 1	12	61.8%	68%	9	1- Item No. 5. 2- Item No.7. 3- Item No. 11.
Measurement No. 2	11	67.6%	71.2%	10	1- Item No. 11.
Measurement No. 3	19	90.1%	91.3%	18	1- Item No. 2.
Measurement No. 4	16	84.1%	———	16	———

Key:

- Measurement No.1 related to Part One of Section Two of the questionnaire that measures the views of internal and external auditors regarding the objectivity of the internal auditors at the banks.
- Measurement No. 2 related to Part Two of Section Two of the questionnaire that measures the views of internal and external auditors regarding the competence of the internal auditors at the banks.
- Measurement No. 3 related to Part Three of Section Two of the questionnaire that measures the views of internal and external auditors regarding the work performance of internal auditors and their role in monitoring the internal control.
- Measurement No. 4 related to Part Four of Section Two of the questionnaire that measures only, the views of external auditors regarding the reliance decision on the internal audit function.

- Measurement No.1: Cronbach's Alpha is 61.8% for this measure. It is suggested that reliability of the measure can be increased to 68% if items No. 5,7 and 11 since they have negative correlation with the rest of the items (-0.199, -0130, and –0.035 respectively). Two questions were added to the final version of the questionnaire.

- Measurement No. 2: Cronbach's Alpha is 67.6% for this measure. It is suggested that the reliability of the measure can be increased to 71.2% if item No. 11 is deleted, since it has the weakest correlation (0.080) with the rest of the items. Three questions were added to the final version of the questionnaire.

- Measurement No. 3: Cronbach's Alpha is very high for this measurement 90.1% and the reliability can even be increased to 91.3% if question No. 2 is deleted since it has a negative correlation of (-0.046) with the rest of the items.

- Measurement No. 4: Cronbach's Alpha is very high for this measurement 84.1%, since the measurement has no negative or a very weak correlations, it is suggested that not to delete any items of this measurement. Six questions were added to the final version of the questionnaire.

5.11 The sampling unit and final questionnaire procedures:

One of most important issues on the quality of data that produced from a questionnaire is the choice of research participants who respond to the questions. It is recommended that researchers choose the right respondents to respond to the questionnaire (Denscombe 2001). Sekaran (2003:265) defined the population as "the entire group of people, events, or things of interest that the researcher wishes to investigate". In other words, the sampling unit means the respondents from whom the data should be collected and accordingly the questionnaire should be directed.

Ahmed (1999) viewed the sampling decision as a critical one because asking the right questions to wrong respondents could mislead the whole research process. Therefore, the decision of the choice of sampling unit should be directed to individuals working as internal auditors within the internal audit departments in Sudanese banks beside the external auditors responsible for banks audits.

For internal auditors, the researcher dealt with the research objectives by gaining insights into internal auditors who are working in Sudanese banks and therefore, they have some experience in internal auditing particularly in banks. Thus, the main objective was to test their attitudes regarding the three variables of the study. Personally administered questionnaires were used to collect data from internal auditors.

Regarding external auditors, the researcher focused on the external auditors who are responsible for the banks' audit, in other words, external auditors who currently (during the questionnaire administration in June 2005) audit the banks covered by the survey or audited these banks during the financial years 2003 and 2004. In general, in private and the branches of foreign banks the numbers of external auditors involved in banks audits are limited. According to Abdelrahim (2005) about 6 private audit firms are dominating the private and branches of foreign banks audits (15 banks). For publicly owned banks and banks that the government contributes in the capital are audited by the General Auditor Chamber (GAC) (11 banks).

For external auditors, the main objective of the questionnaire was to test their views regarding the three variables of the study and in addition to test their reliance decision on the work of internal audit personnel in banks. Personally administered questionnaires were used with GAC auditors and postal questionnaires were used with private auditing firms' auditors.

1- The questionnaire procedures:

Considering the objectives of the study, as well as the high reliability of the questionnaire design provided by the pilot study results, the researcher found that the suitable method for collecting the primary data is the questionnaire, beside the interviews conducted.

Before conducting the final survey and following the discussion of the aims of the study with the internal audit directors at the banks and the partners at private auditing firms, the personally administered questionnaire was found to the most efficient way of collecting data for internal auditors in banks because it gave the researcher the opportunity to introduce the research topic for the participants and the sample was not geographically separated. Regarding the external auditors, personally administered questionnaires were used with GAC auditors and postal questionnaires were used with private firms' auditors (all of auditing firms maintain a reliable system of mail).

All of the internal audit departments are located within the head offices of the banks, and all of the head offices are located in the capital city (Khartoum). The private auditing firms and the GAC are also located in Khartoum. In general, the sample (internal and external auditors) was located in different areas of Khartoum.

The banks and audit firms agreed to allow the participants (internal and external auditors) to respond to the questionnaires at the workplace.

For the bank internal auditors, the researcher preferred to introduce the topic to the internal auditors in every bank selected as a sample due to the differences of the internal auditors in terms of, experience and educational background. In other words, the researcher used Self-Administered questionnaires where the researcher approached the subjects personally and handed the questionnaires under the supervision of the director of the internal audit department of the bank, after certain time (agreed with the respondents and the director of internal auditing), the questionnaires were gathered personally as well, however, the researcher kept a record for the questionnaires to know the amount of questionnaires distributed to and came back from each bank internal auditors. In some banks, the numbers of questionnaires distributed to bank internal auditors were few compared to the number of internal auditors working in the bank (for example bank of Khartoum and Agricultural bank of Sudan, Table 5.2). The reason for this low response rate of bank internal auditors that internal auditors in these banks were in audit assignments in other states of Sudan during the administration of the questionnaire.

Regarding the external auditors, and more specifically, the banks audited by the GAC, the researcher conducted a meeting with two key staff at the GAC; the managers of the Corporations Audit Department and the Training and Development Department. They introduced the researcher to the heads of the teams who were conducting the banks audits (11 banks). The head of teams distributed the questionnaires to the available team members. Latter the researcher met the Corporations Audits Department Manager and collected the completed questionnaires from him.

For external auditors working in private audit firms, the researcher met 8 partners at the audit firms. The questionnaires were handed to the partners personally with pre-paid envelopes. Partners distributed the questionnaires to their staff involved in bank audits and collected the completed questionnaires from them. The completed questionnaires were returned back to the researcher through the mail.

<u>2- The response rate:</u>

One of the most important issues discussed in the advantages and disadvantages of questionnaire surveys was the response rate (section 4.8). Bryman (2004) argued that the notion of a response is a common one in social research, however, he defined the response rate as "the percentage of a sample that does, in fact, agree to participate" (Bryman, 2004:98). Regarding this issue, Collis and Hussey (2003) and Saunders et al (2003) explained that the main disadvantage of questionnaire surveys is the low response rates. The response rates produced by mailed questionnaires are generally poor when compared with other survey methods, for example personally administered questionnaires. In connection with this issue, Saunders et al (2003) argued that the most common reason for non-response is that the respondents refuse to answer questions or to be involved in the survey and sometimes the selected respondents may not meet the research requirements and will be ineligible to respond. Furthermore, Vaus (2001) categorised the major problems of low response as, it creates an unacceptable reduction of sample size and also it ends in bias.

Considerable effort was given to avoid the problems of non-response and to ensure the completeness of the questionnaire. The questionnaire was designed with a majority of close-ended questions that enable the respondents to complete it easily. According to the results of the pilot study, the questionnaire wording was simple, of reasonable length and brought no complaints regarding the questionnaire clarity and layout. Most of the questionnaires were personally administered (internal auditors, 97 questionnaires and GAO auditors, 26 questionnaires) and 20 questionnaires delivered personally by the researcher and returned by mail. Therefore, the disadvantages of mailed questionnaires were avoided as much as possible.

Regarding the questionnaire response rate, the overall response rate was 69.4% (see table 4.1). Remenyi (2002) suggested that a response rate above 60% is considered to be exemplary. The response rate for banks internal auditors was 82.9%. This is considered to be a high response rate when compared with private auditing firms' auditors and GOC auditors (45.5% and 57.8%) respectively. Based on that, the researcher used personally administered questionnaires with internal auditors and GAC auditors and mailed questionnaires with private auditing firms' auditors. This result supports the argument that personally administered questionnaires offer higher response rates when compared with mailed questionnaires. As can be seen from Table (4.1) that the response rate of external auditors is low when compared with internal auditors. These results refer to that most of external auditors either work in the General Auditor Chamber or work in private auditing firms has scheduled programs for audits outside Khartoum (in other states). A lot of external auditors, who conduct banks audits, were not available at the time of conducting the survey. As a result, they were not be able to complete the questionnaires and at the same time poor communications and the postal system in Sudan did not allow the researcher to get in touch with the respondents outside Khartoum.

Group	*Distributed questionnaires*	*Useable questionnaires*	*Response rate*
Internal auditors	117	97	82.9
Private auditing firm auditors	44	20	45.5
GOA auditors	45	26	57.8
Total	206	143	69.4

Table 5.2 Response rate for the questionnaire survey

Name of the bank	*Total No. of Internal auditors*	*Total No. of Distributed questionnaires*	*Total No. of Useable questionnaires*
Bank of Khartoum	16	8	7
Agricultural Bank of Sudan	16	8	5
Elnilein Industrial Development Bank	15	10	9
Sudanese French Bank	12	7	7
Saudi Sudanese Bank	10	8	7
Al Baraka Bank	5	4	3
Faisal Islamic Bank	9	7	6
Tadamon Islamic Bank	9	9	9
Blue Nile-Mashreq Bank	4	4	3
Al Shamal Islamic Bank	8	8	6
Islamic Cooperative Development Bank	6	4	4
Animal Resources Bank	4	4	3
National Bank of Sudan	4	4	3
Omdurman National Bank	7	7	6
Sudanese Islamic Bank	12	12	8
Workers National Bank	4	4	3
Habib Bank	1	1	1
Financial Investment Bank	1	1	1
Exports development Bank	3	3	2
National Bank of Abu Dhabi	1	1	1
Ivory Bank	3	3	3
Total	150	117	97

Table 5.3 the distribution of the questionnaire among the banks internal auditors

For more details see section 5.11 the questionnaire procedures.

Type of external auditor	*Questionnaires distributed*	*Questionnaires collected*
External auditors working in private audit firms.	44	20
External auditors working in the General Auditor Office	45	26
Total	89	46

Table 5.3 the distribution of the questionnaire among the banks external auditors

5.12 The Purpose of Each Statement and Linkage to Relevant Hypotheses:

The goal of this section is to evaluate the strength of the internal audit department in Sudanese banks. This evaluation is based on the components of the model presented, the model includes three components, in addition to the degree of reliance on the work of internal auditors by external auditors component. The following are the four components:

(1) The independence of internal audit departments in Sudanese banks.
(2) The competence of internal audit departments in Sudanese banks.
(3) The work performance and monitoring of internal controls in Sudanese banks.
(4) The degree of reliance placed by external auditors on the work of internal auditors.

For each of these components, the researcher included statements. The respondents were asked to state their agreement to each statement, according to their perception, on the scale of 1 (strongly disagreement) to 5 (strongly agreement).

Part 1: Independence of internal audit departments in Sudanese bank – Statements 1-14:

These part statements are concerned with the first component that deals with the independence of internal audit departments in Sudanese banks.

According to the model, independence is influenced by organisational status, objectivity, freedom of internal auditors work, appointment and removal of internal auditors, their reporting level, and their access to information and employees of the bank.

- Statement No.1 is concerned with the organisational status of the internal audit department in the bank. However, the organisational status of the internal audit departments in Sudanese banks is defined by the regulations of the central Bank, so the researcher took it into consideration to gain the respondents' opinion.
- Statement No.2 is about the ability of internal auditors to work in a free and objective way.
- Statement No.3 is about the ability of internal auditors to review all branches and departments of the bank
- Statement No.4, 5&6 are concerned with the internal auditor freedom from any situations that may lead to any conflict of interest while they are doing their work which compromises their objectivity.
- Statement No.7& 11 test the freedom enjoyed by the internal audit department from the executive management and the organisational level of the department in the bank.
- Statement No.8&9 these statements are to test whether the board of directors (audit committee) has the power to appoint or to remove the internal audit departments' directors.
- Statement No. 10&12 these two statements are about the internal audit departments reporting level, whether the internal audit department is reporting to the highest level in the bank or not and numbers of internal audit reports issued by the department during the year.
- Statement No. 13&14 the objective of these two statements is to evaluate the ability of the internal audit departments in Sudanese banks to have the free access to all employees and information considered important.

Part 2: Competence of internal audit departments in Sudanese banks-

Statements1- 15:

Statements in part two are concerned with the component that deal with competence of internal audit departments in Sudanese banks

In this part of the model competence is measured by appropriate educational background and training in auditing-in this aspect the research is concerned with the individuals working in the internal audit department-, knowledge and skills of the internal audit department as a whole, experience in auditing in general and more specifically in internal auditing, technical competence of the staff, appointment of experienced internal auditors and the ability of the board of directors to control the competence of internal auditors.

- Statement No. 1,2&3: these statements are concerned with views of respondents as to whether the internal audit department possess the knowledge and skills to carry out its responsibilities, in addition to continued development of the staff's skills and knowledge.
- Statement No. 4,5,6&7: The aim of these statements is to check the views of the respondents regarding the educational background of the internal auditing staff. Statement No. 4 aimed to check if some of the internal auditors are obtaining professional certificates in auditing, while Statement No.5 investigates whether some of the internal auditing staff hold any certification programme in internal auditing. Statement No. 6 tests if the bank management only appoint qualified staff to work as internal auditors i.e. with accounting or auditing qualifications. Finally, statement No. 7 examines the training provided by the bank management to the internal auditing staff.
- Statement No. 8,9&13: statements No.8 and No.9 are mainly concerned with the experience of internal auditing staff in auditing and the internal auditing profession. Experience is one of the important factors that measures the competence of internal auditors. Statement No. 13 tested to what extent the banks management appoint experienced staff to work as internal auditors.
- Statement No.10: is about whether the internal auditor's relationships with auditees are satisfactory. A satisfactory relationship should be conducive to successful audit. If the auditee relationship with the auditor is satisfactory this

will lead to acceptance of the auditors' findings and to make any corrections necessary.

- Statement No.11, 12&14: evaluate the perceptions of the different respondents as to whether the internal auditing departments can call upon the necessary professional competence. How do the board of directors support the competence of the department, and what is the effect of allocating employees from other departments to work as internal auditors.

Part 3: work performance and monitoring of internal controls of internal audit departments in Sudanese banks- Statements 1- 19:

The statements in part three are related to the third component of the model, work performance and monitoring of internal controls in Sudanese banks.

- Statement No. 1 is concerned with the perception whether the internal audit directors in banks can supervise their staff in a proper way, beside that it tests the degree of authority and responsibility within the department.
- Statement No 2&3 these two statements are concerned with the available numbers of internal auditors in the department and whether this number of internal auditors is sufficient to conduct their work. The researcher believes that if the numbers of the internal audit staff is sufficient, this will increase the efficiency of the department. The third statement attempted to check that if the internal audit department at the bank maintains audit schedules for the departments and branches of the bank.
- Statement No. 4 is linked to the conception that the internal audit department reviews operations or programs and compares the results with the established objectives and goals of the bank.
- Statement No. 5 is connected with efforts carried out by the internal audit department to check the reliability and integrity of the bank information.
- Statement No.6&16 are checking the perception as to whether the internal auditors in the banks review and evaluate the adequacy of risk management on a regular basis.

- Statement No. 7 is concerned with the question that checks whether compliance with polices and regulations are included in the scope of work of the internal audit department.
- Statement No. 8 This statement checks the work performance of internal auditors in relation to their role in reviewing operations to ascertain that the results are in line with the established goals.
- Statement No. 9 investigates the follow-up procedures performed by the internal audit department in the bank after reports have been presented to the top management of the bank. The purpose of following-up is to verify that corrective actions have been applied on any weaknesses pointed out.
- Statement No.10 deals with the scope of work of the internal audit department and whether the department has enough authority to apply its rules to all levels of the bank.
- Statement No. 11 it is concerned with the ability of the director of the internal audit department to conduct a regular checks on the quality of the working papers used by his staff.
- Statement No. 12&19 these two statements are concerned with the evaluation of the internal control system. However, the statements check the perception in general as to whether the internal audit department evaluates the adequacy of the internal control system in the bank and whether the department is involved in the evaluation of the control system.
- Statement No. 14&15 the purpose of these statements is to check whether the internal audit departments are seen as checking the reliability of reporting, beside the proper implementation of the financial controls.
- Statement No.17 Checks the whether the internal audit staff understand the nature of operational controls of the bank.
- Statement No. 13 tests an important issue in the scope of work of internal auditors, the review of the system applied to safeguard the bank's assets.
- Statement No. 18 is concerned with the question whether the internal audit department ensures compliance with laws and regulations.

Part 4: External auditors' decisions to use the work of internal auditors:

This part of the questionnaire attempted to evaluate the degree of reliance placed by external auditors on the work of internal auditors. Statements 1 to 22 in this part are designed to test the extent to which the external auditors rely on the work of internal auditors in Sudanese banks.

- Statement No. 1 examines to what extent the external auditors rely on the reports issued by the internal audit department and whether these reports are addressed to the highest level in the bank.
- Statement No. 2 tests the perceptions of external auditors whether the internal auditors at the bank are conducting their work completely and accurately and the effect of this on the reliance placed on the work of internal auditors.
- Statement No. 3 checks how external auditors rely on the work of internal auditors in terms of how the internal audit department's directors are supervising and controlling their staff.
- Statement No. 4&5 investigates the degree of freedom of internal audit staff to have access to other employees in the bank (auditees) and the bank records and its effect on the reliance placed by external auditors on the work of internal auditors.
- Statements No. 6&7 these two statements check if the external auditors placed reliance on the work of internal auditors regarding the quality of internal audit programs and quality of working papers.
- Statement No. 8 This statement is about whether the reliance decision placed by the external auditors on the work of internal auditors is affected by the scope of coverage of the department's activities.
- Statement No.9 inquires into the follow-up performed by the internal audit department after reports have been released. However, the purpose of the statement is to investigate if the external auditors placed reliance on the work of internal auditors in terms of response to their findings addressed to top management of the bank.
- Statements No. 10, 11& 12 these statements evaluate the internal auditors knowledge regarding bank operations, bank procedures and knowledge of new auditing and internal auditing techniques. However, these statements measure

whether the external auditors rely on the work of internal auditors regarding these issues.

- Statement No. 13 measures the degree of reliance placed by the external auditors on the work of internal auditors in terms of their competence. Competence in this statement is measured by whether the internal auditors are subject to continuing educational programs specified for internal auditors.
- Statement No. 14 evaluates the effect of level of compliance between the work of internal auditors and the standards of professional practice on the external auditors' decision to use the work of internal auditors.
- Statement No. 15 tests the effect of maintaining internal audit manuals by internal audit departments on the external auditors decision to rely on the work of internal auditors.
- Statements No. 16, 17, 18, 19 examines to what extent external auditors are relying on the objectivity, competence, work performance and monitoring of internal controls of the internal auditing staff in Sudanese banks.
- Statements No. 20, 21 & 22 explains issues related to the effects of the reliance decision on the work of internal auditors on the banks' cost of external audit.

5.13 Qualitative research method:

Bryman (2004) viewed qualitative research as a research strategy that usually considers words rather than quantification in the process of data collection and analysis. In line with Bryman (2004), Sekaran (2003) argued that qualitative data refer to information gathered in a narrative form through interviews and observations. However, qualitative research, broadly defined as "any kind of research that produces findings not arrived at by means of statistical procedures or other means of quantifications" (Strauss and Corbin 1990). In the same context, Remenyi et al (2002:288) mentioned "qualitative research based on evidence that is not easily reduced to numbers. In some cases the evidence cannot be reduced to numbers and any attempt to so do would not be useful. In such cases statistical techniques are not sensible and hermeneutic approaches are preferable". Qualitative research is therefore usually *inductive*. That is, general principles are derived from specific observations. It can produce new ways to think about problems, where as quantitative research usually means examining problems using theories and ideas that already exist. Therefore, the role of qualitative research has become recognised in management literature because it can be used to answer how questions (Steckler et al 1992). In this research, the interview process was designed to supplement and enhance the knowledge gained from questionnaires.

5.13.1 Interviews:

Collis and Hussey (2003:167) argued that interviews are associated with positivist and phenomenological methodologies. They viewed interviews as "a method of collecting data in which selected participants are asked questions in order to find out what they do, think or feel". A positivistic approach suggests the usage of structured interviews as it deals with close-ended questions that represent the main focus of positivists. While the phenomenological approach is unstructured or semi-structured as they concentrate on open-ended questions and used to explore questions in depth. May (1997:109) viewed interviews as a method of maintaining and generating conversations with interviewees on a specific topic or range of topics. He suggested that interviews yield rich insight into respondents' experiences, opinions, aspirations, attitudes and feelings.

Sekaran (2003) explained that there are many options for the interview approach. This research interviewed 8 subjects. To achieve this, the researcher employed both semi-structured interviews and unstructured interviews. For more explanation, the researcher used semi-structured interviews with the first three interview main questions while unstructured interview method used with the last two questions (for more details see appendix 7). The next two sections will discuss these two types of interviews.

5.13.1.1 Semi-structured interviews:

The semi-structured interview is "a process in which the interviewer focuses on a limited number of questions on some limited number of points. It may range quite widely around a point, but this would be done only as a means of getting the required information on that particular point" (Smith 1972:119). Bryman (2004) argued that the term semi-structured interview covers a wide range of instances. This type of interview involves the interviewer preparing a series of questions that are in the general form of a interview schedule, but it is recommended that the interviewer should be able to vary the sequence of questions. However, semi-structured interviews provide the interviewees the opportunity to speak frankly about what they believe. Moreover, this method was considered to be an appropriate method to conduct exploratory discussions in the order not only to reveal (what) and (how) but also to place more emphasis on (why) (Saunders et al 2000). Semi-structured interviews give the potential for discovering issues that have been considered before. Furthermore, it allows the questions covered to vary from one interview to another and on the flow of the conversation. As additional advantages of semi-structured interview, May (1998) explained that the interviewer who can seek clarifications during the course of the interview, could record qualitative information about the topic discussed and the questions are specified.

5.13.1.2 Unstructured interviews:

Saunders et al (2000) viewed unstructured interviews as an informal method of data collection. However, it is used to explore in depth a general area of interest of the researcher. Unstructured interviews are so labelled because the interviewer has no planned sequence of questions to be asked of the respondent. "The main objective of the unstructured interview is to bring some preliminary issues to the surface so that the researcher can determine what variables are needed for further in-depth investigation" (Sekaran 2003:225).

It is argued that this type of interviews enables interviewees to answer questions within their own frame of reference as interviewees are given the opportunity to talk freely about the topic under investigation in terms of events, behaviour and beliefs, so this type of interaction is called non-directive (May1998 and Saunders et al 2000). From the researchers' point of view, it might be a disadvantage that respondents answer questions within their own frame of reference as it may provide unnecessary information, but at the same time researchers may need this information and ideas about a topic to explore their ideas. As a result this type of interview might equip them with needed information. Furthermore, it provides a greater understanding of the subjects' point of view. Moreover, the unstructured interview involves the researcher having an aim when conducting the interview, but the subjects interviewed are free to discuss the topic. As a result, it gives a room for flexibility (May 1998).

Denscombe (2003:167) argued that the main difference between unstructured and semi-structured interviews is the degree and way of control conducted by the researcher over of response and length of answers provided by the respondent.
In addition to the above advantages of unstructured and semi-structured interviews, Easterby-Smith et al (1991) added that both methods are suitable to be used when issues are of highly confidential or commercially sensitive nature or the interviewee may be reluctant to be truthful about this issue other than confidentially in a one-to-one position.

Although interviews have many advantages but there are some several problems associated with conducting interviews. Collis and Hussey (2003) explained that the whole process is time consuming and expensive. Furthermore, the researcher should ensure that all interviews are conducted in the same way. This means that researchers should ask the same questions and pose them in the same way. Sekaran (2003) added that respondents might feel uneasy about the anonymity of their responses when they speak to the interviewers.

5.14 The sampling unit and interview procedures:

As mentioned earlier semi-structured and unstructured interviews format were used as questions were designed to obtain open answers. Interviews were conducted in order to approach some issues that could not be captured properly or analysed through a qualitative approach. In general, most of the issues in corporate governance and particularly in internal auditing are confidential and sensitive. This can be approached more easily by one-to-one discussion. Internal and external auditors are representing the sample of interviewees and are expected to provide information in private meetings. They expected to explain issues related to the effectiveness of internal auditing in Sudanese banks based on the three factors (objectivity, competence and work performance of internal auditors). The same may apply for external auditors who may specify matters that cannot be easily communicated in public regarding the degree of reliance placed on the work of internal auditors.
Thus, interviews were thought to be appropriate to offer guidance to extensions of research finings and interpretations of the quantitative study (Leventis 2001). Due to the limited numbers of internal auditors in Sudanese banks and the number of external auditors responsible for bank audits beside the relatively low response of external

auditors, the researcher conducted these interviews to support the results of questionnaires irrespective of the problems of carrying out an interview in a country like Sudan. Twenty individuals were initially targeted as potential interviewees; 8 audit partners in auditing firms and 12 directors of internal auditing at banks. Eight of them were interviewed, which represents a 40% response rate. The main reason for declining was time constraints in addition to the problems of conducting interviews in Sudan (see section 5.16).

The interview research builds upon the general objectives of the research. Thus, testing the views of internal auditors in Sudanese banks and the views of external auditors responsible for banks' audits regarding the issue of independence was the first general objective. Examining the views of internal and external auditors related to their evaluation of competence of internal audit departments of Sudanese banks was the second general objectives of the research. The last general objective related to the evaluation of work performance and monitoring of internal controls by internal and external auditors. The interviews also addressed two additional general objectives, the reliance decision of external auditors on the work of internal auditors and the role of internal auditors in Sharia audits. Therefore, the first three general objectives were broken into some specific objectives that related to every general objective. The last two objectives (reliance decision and Sharia audits) have no specific objectives.

A letter explaining the objectives of the study and ensuring the anonymity of responses was sent in advance to the respondents. The themes of the questions were given in advance as a reminder to the interviewee about the meeting and also to allow the interviewee time and scope to prepare for the meeting. Telephone calls one day before the meeting were also made to confirm the interviews.

At this stage, two groups of interviewees were approached, namely directors of internal auditing at Sudanese banks and partners at auditing firms. Eight interviews were conducted, 4 with internal auditors and 4 with external auditors, as these two groups have a direct influence on the issues related to external auditing and internal auditing.

The interviews took approximately 40-75 minutes, including the introduction and explanations. At the commencement of each interview, interviewees were asked if they would allow the interview to be recorded by tape. In order to ensure that each interviewee felt relaxed about the use of the tape recorder, it was explained to each of them that the tape recorder was only being used in order to enhance the accuracy of the recording of the interview. In 3 interviews, interviewees refused to record the interviews. It seemed that respondents would be anxious at being recorded. However, the researcher took the notes during the interviews, and immediately after the interview, the full text of the interview was written down in Arabic language using these notes. All the interviews were translated back to English language.

All questions were covered in the interviews but the sequence of questions was varied from one interview to another. Interviewees were invited to mention any other matters not covered by the interviewer's questions. All of the sensitive questions were left to the end of interview in order to build trust and confidence between the researcher and interviewees, however, for consistency purposes, the interviews were organised again according to the sequence of questions that was set by the researcher.

5.15 Interview analysis:

The interview process was designed to enhance and supplement the knowledge gained from the questionnaire survey as to the effectiveness of internal auditing in Sudanese banks and the degree of reliance placed by external auditors on the work of internal auditors. However, the researcher conducted all of the 8 face-to-face interviews. To analyse the interviews, the researcher summarised the content of interviews according to the interviewees' answers; thereafter, the key themes were emerged.

The content analysis has been used to analyse the interviews. According to Denscombe (2003:221) the content analysis is a research method, which helps the researcher to analyse the content of documents; basically, it can be used with any text whether it is written text, in form of sounds or pictures to quantify the contents of that text. Krippendroff (1980:21) defined content analysis as "a method of codifying the text of writing into various groups or categories based on selected criteria. It assumes that frequency indicates the importance of subject matter"

For the effectiveness of content analysis, all answers were grouped together from the different interview transcripts by topic per the interview guide and allowing the guide to act as a descriptive framework for analysis. Once answers had been grouped by topic, they were analysed using content analysis (see appendix6-1 to 6-5). Guthrie and

Mathews (1985) identified four technical requirements that should be met. First, the categories of classification should be clearly and operationally defined. Second, the requirement of objectivity stipulates that the categories of analysis should be defined clearly that an item either belongs or does not belong to a particular category. Third, the information needs to be quantified. Finally, a reliable coder is essential for consistency. However, these requirements were considered.

In order to conduct a content analysis, selection of unit of analysis is essential. In accounting literature, it is common to use words, sentences or portions of pages as the basis for the coding (Gary et al 1995). The current research used the sentences as a method of coding, however, this method preferred written communication if the task is to infer meaning. Using sentences for both coding and measurement is likely to provide complete, reliable and meaningful data for further analysis (Milne and Alder 1999), for more details (see appendix 6-1 to 6-5).

For the analysis and interpretation of the data, however, this step mainly depends on the orientation of the researcher and the objectives of the study that focused on objectivity, competence, work performance and monitoring of internal controls, external auditor reliance on the work of internal auditors and the role of internal auditors in the Sharia audits (see section7.3).

Finally, to highlight the contents of the interviews, the grouped and summarised answers were compared and contrasted, showing the degree of agreement/disagreement between the interviewees. Their quotations have been used in order to bring out their thoughts and ideas about the discussed topics (sections 7.3.1 to 7.3.5).

5.16 Questionnaires vs. interviews:

For the research to be described in this thesis, it is necessary to consider whether interview or questionnaire should be used to evaluate the strength of internal auditing in Sudanese banks and therefore the degree of reliance placed by external auditors on the work of internal auditors. Interviews are considered as an effective means of collecting large amounts of data but there are several difficulties in conducting interviews in the present research. As in Western countries, they would be more time consuming and therefore costly in terms of resources, furthermore, interviews are intrusive which may reduce the participants willing to participate, in addition to the difficulties of translating the interviews. Furthermore there are some problems that arise specifically in Sudanese interviewees.

1- The researcher noticed that most of the interviewees have difficulty in describing their problems in general, more specifically, when they are asked about something related to their work as internal or external auditors especially if they are meeting the interviewer for the first time.
2- Most of the interviewees, especially the key staff, have the impression that interviews may reflect information regarding their institutions and that might threaten their positions in banks (conflict of interest).
3- Permission to tape-record interviews would almost certainly be refused because respondents would be tense during the recording procedures, which is an unfamiliar experience in Sudanese society and would be regarded as threatening.

For the above reasons, interviews about sensitive issues are less practical and less likely to provide valid information in Sudan than in Western studies, particularly the difficulties of conducting an interview with directors of internal auditing and partners at auditing firms. In this study, questionnaires should therefore be used to highlight the views and perceptions of internal auditors of Sudanese banks and external auditors responsible for bank audits regarding objectivity, competence and work performance and monitoring of internal controls in Sudanese banks besides evaluating the degree of reliance placed by external auditors on the work of internal auditors.

5.17 Triangulation:

The two theoretical stances -positivistic paradigm and phenomenological paradigm-, that were discussed earlier in this chapter led the researcher to believe that business and management researches are often a mixture between the two methods. Therefore, combining the methods has been advocated as a leading to a type of validity that has been called triangulation (Bryman 2004). However, Hussey and Hussey (1997) encouraged the use of both quantitative and qualitative methods for collecting the data and considered it as an advantage for the research. Considering the advantages of triangulation, Webb et al (1966) considered triangulation as an approach to the development of measures of concepts whereby using more than one method would be used in developing measures will result in more confidence in the result.

While Saunders et al (2000:98) mentioned that triangulation would give confidence that researchers are addressing the most important issues.

In this way, since the nature and objective of this study was to examine the strength of internal audit function and accordingly the relationship between internal and external auditors, combining questionnaires and interviews seems to be appropriate to fulfil these objectives.

4.18 Summary:

This chapter provides the methodology and methods adopted to attain the objectives of the study. It described the research philosophies, namely; positivistic and phenomenological paradigms. As the study was a combination between quantitative and qualitative study (i.e. questionnaires and interviews), a comprehensive description for the process of questionnaire and interview procedures, was explained. The pilot test for the questionnaire survey was introduced. Generally, the idea of using both interviews and questionnaires and the problems facing the researcher in conducting the interviews, was reviewed and the purpose of combining the two methods was justified. In the following chapter, a statistical description of the data gathered by the questionnaire survey and presentation for interview results, in addition to testing the research hypotheses and exploring the interview themes.

CHAPTER SIX
QUANTITATIVE FINDINGS

6.1 Introduction:

This chapter reports on the findings of the survey conducted in Sudan during the period June to September 2005. The chapter describes and summarise the questionnaire data that was collected from internal auditors in Sudanese banks and external auditors responsible for bank audits. Two types of statistical tests were used to test the hypotheses Analysis of Variance (ANOVA) and t-test.

This chapter begins with descriptive analysis of demographic data. However, (Diamantopoulos and Schlegelmilch 1997, P.73) listed the purposes of descriptive analysis as follow:

a) Provide preliminary insights as to the nature of the responses collected, as reflected in the distribution of the values for each variable of interest.
b) Help in detecting errors when coding the data.
c) Use of graphs and tables will help in presenting the data in a digestible way.
d) Provide an early opportunity for checking whether the distributional assumptions of the subsequent statistical tests are likely to be satisfied.

This chapter split into two parts. The first part presents the statistical results, however, this part reports the results of Cronbach's alpha for both, the pilot study and the main study. Thereafter, it focuses on the results of testing hypotheses related to objectivity, competence and work performance and monitoring of internal controls as well as hypotheses related to external auditors decision to rely on the work of internal auditors in Sudanese banks. The second part discussed the results of hypotheses tested.

6.2.1 Results of demographic data:

Table (6-1) study Cronbach's alpha

Measurement	**Scale total number of items**	**Total number of cases**	**Cronbach's alpha**	**Cronbach's alpha 2004 (pilot study)**
Objectivity	14	143	.753	.618
Competence	14	143	.834	.676
Work performance	19	143	.918	.901
External auditors' reliance decision on the work of internal auditors	22	46	.864	.841

The reliability test was conducted for all retained items (69 items), i.e. objectivity (14 items), competence (14 items), work performance and monitoring of internal controls (19 items) and external auditors' reliance decision on the work of internal auditors (22 items). According to Sekaran (1992: 173) "the reliability of a scale indicates the stability and consistency with which the instrument is measuring the concept and help to assess the goodness of a measure".

After re-coding all negatively worded items in the questionnaire and reversing them, the reliability test using Cronbach's alpha was conducted. Table (6-1) presents the final results of this test. As can be seen from this table, Cronbach's alpha for the four measurements was over 0.70. Reliabilities over 0.6 are generally considered to be acceptable. Thus the inter-item consistency reliability (ICR) of the measures used in this study can be considered to be very acceptable. Moreover, Table (6-1) also shows that the Cronbach's alpha reported in the pilot study was over 0.60. When these two alpha values are compared together, no large deviations is found especially in objectivity, work performance and monitoring of internal controls and reliance decision of external auditors to use the work of internal auditors, thus it can be suggested that the study instruments' reliability is stable over the time (for more details see appendix 2)

Tables (6-2) to (6-8) demographic data

Table (6.2): Percentage distribution of auditors by gender and age groups

Gender / Age	Male	%	Female	%	Total	%
< 25 years	2	1.8	0	0.0	2	1.4
25 – 35	15	13.8	10	29.4	25	17.5
36- 45	47	43.1	21	61.8	68	47.5
> 45 years	45	41.3	3	8.8	48	33.6
Total	109	76.2	34	23.8	143	100.0

Table (6-2) is number of males and females accompanied by their age group. As can be seen from the table 84.4% of the surveyed males are above the age of 36 years, while 70.6% of females are aged 36 years and over.

Table (6.3): Percentage distribution of auditors by education

Auditor / Education	Internal	%	External	%	Total	%
High School	24	24.7	0	0.0	24	16.8
First university degree	51	52.6	24	52.2	75	52.4
High diploma	10	10.3	2	4.3	12	8.4
Masters or PhD	12	12.4	3	6.5	15	10.5
Accounting professional certificate	0	0.0	17	37.0	17	11.9
Total	97	67.8	46	32.2	143	100.0

Table (6-3) shows the educational level of both internal auditors in Sudanese banks and external auditors responsible for banks' audits. However, 50% of both internal and external auditors hold a first university degree while 37% of the external auditors hold Accounting Professional Certificate. The table showed that none of the internal auditors in the banks have Accounting Professional Certificates.

Table (6.4): Percentage distribution of auditors by Sectors

Auditor / Sector	Internal	%	External	%	Total	%
Private Auditing office	0	0.0	20	43.5	20	14.0
General Auditor	0	0.0	26	56.5	26	18.2
Internal auditor	97	100.0	0	0.0	97	67.8
Total	97	67.8	46	32.2	143	100.0

This table indicated that the population contained 97 internal auditors representing 67.8% of the respondents. The external auditors were distributed according to their sectors, 20 external auditors working in private audit firms and 26 external auditors are in the General Auditor Chamber.

Table (6.5): Percentage distribution of auditors by years of experience

Auditor / Sector	Internal	%	External	%	Total	%
< 2 Years	15	15.5	0	0.0	15	10.5
2 to 5 years	43	44.3	3	6.5	46	32.2
6 to 10 years	27	27.8	8	17.4	35	24.5
11 to 20 years	10	10.3	16	34.8	26	18.2
Over 20 Years	2	2.1	19	41.3	21	14.6
Total	97	67.8	46	32.2	143	100.0

Table (6-5) indicated that 57.3% of the surveyed internal and external auditors had more than 5 years experience in the auditing profession, demonstrating reasonable experience in bank audits.

Table (6.6): No. of years served as an internal auditor in any bank.

Duration	No. of cases	Percent	Cumulative percent
< 2 Years	28	28.9	28.9
2 to 5 years	43	44.3	73.2
6 to 10 years	22	22.7	95.9
11 to 20 years	4	4.1	100
Total	97	100	

From Table (6-6) showed the number of times of each value of experience in internal auditing as well as percentages and cumulative statistics. It can be noticed that only

26.8% of the internal auditors working in internal audit departments in Sudanese banks had experience more than 5 years

Table (6.7): Who decides the items to be included in the annual internal auditing plan?

Deciders	No. of cases	Percent	Cumulative percent
General Manager	30	30.9	30.9
Board of Directors	6	6.2	37.1
The director of internal auditing	57	58.8	95.9
Others	4	4.1	100
Total	97	100	

Table (6-7) presented the results of who decide the items to be included in the annual plan of internal auditing. However, 58.8% of the respondents reported that the annual plans are decided by the internal audit directors while 30.9% reported that the banks general managers were involved in setting the annual plans of internal audit departments.

Table (6.8): *No. of employees in the internal audit department*

No. of internal auditors	No. of cases	Percent	Cumulative percent
<5	22	22.7	22.7
5-10	45	46.4	69.1
11-15	17	17.5	86.6
>15	13	13.4	100
Total	97	100	

Table (6-8) presented the distribution of internal auditors in internal audit departments. The result of this table indicated that 46.4% of the internal auditors working in small size internal audit departments ranging between (6-10 internal auditors)

6.3 Results of objectivity of internal audit departments:

6.3.1 Results of Means:

Table 6-9 means of objectivity variables

The Statement	Mean Score
1- I think the organisational status of the internal audit department is adequate for the fulfilment of its goals.	3.483
2- I believe, sometimes, the internal auditing staff face interference by the management while they conduct their work.	3.049
3- I believe the internal auditing staff is allowed to review all departments in the bank.	3.728
4- The board of directors enhance the objectivity of internal auditors.	3.182
5- In my opinion, the internal audit director allows his staff to review a department in which one of his staff worked before in a non-audit capacity.	2.238
6- Conflict of interest is rarely present in the work of internal auditors.	3.056
7- The internal audit department is under the authority of executive management.	1.720
8- The board of directors (audit committee) approve the appointment of internal audit department directors.	1.986
9- The board of directors (audit committee) approve the removal of internal audit department directors.	1.944
10- The internal auditors report to the board of directors between 3 to 6 times a year.	2.539
11- The internal audit department is ranked at the same level as the managing director.	2.385
12- The internal audit department directly reports to the board of directors (audit committee if applicable).	2.391
13- In general, internal audit staff have access to all information considered pertinent.	3.972
14- In general, internal audit staff have free access to all employees in the bank.	3.958
Overall mean, objectivity score	2.835

Table (6-9) is the results of means for objectivity variables. However, the result of overall mean (2.835) indicated that internal auditors in banks and external auditors responsible for banks' audits were between neutral and dissatisfied for objectivity variables for internal audit departments of Sudanese banks especially with the statements no (7,8 & 9).

6.3.2. Educational level and evaluation of objectivity:

Table 6-10 Results of one –way ANOVA evaluation of objectivity factored by educational level.

Hypothesis 1.1

HO: There are no differences in mean levels of objectivity when factored by educational level.
HA: At least one of the mean levels of objectivity is different when factored by educational level.

No	Variable	F Value	Sig.	Hypothesis supported
1	Organisational status	1.698	.154	HO
2	Management interference in internal auditing work	3.531	.009	HA
3	Freedom to review any area in the bank	2.297	.062	HO
4	Board of directors enhancement of internal auditors	1.256	.290	HO
5	Internal auditor revision of previous work.	1.172	.326	HO
6	Conflict of interest	2.345	.058	HO
7	Relationship with executive management	.477	.752	HO
8	Appointment of internal auditing directors	1.381	.244	HO
9	Removal of internal auditing directors	2.266	.065	HO
10	Reporting times in the year	2.164	.076	HO
11	Position of internal audit department in the organisational structure	4.498	.002	HA
12	Reporting level	.428	.789	HO
13	Free access to information	.811	.520	HO
14	Free access to employees	.787	.536	HO

For more details see appendix (3.1)

HYPOTHESES TESTING:

Hypothesis 1.1 (H 1.1)

Educational level and evaluation of objectivity of internal audit departments

One-way ANOVA is used to examine this hypothesis. The result of this test is presented in table (6.10). Looking at the 14 variables in objectivity table, it can be noticed that only two variables (2 and 11) have significant differences, while 12 variables indicated non-significance. Hence, there is no significant difference across the perceptions of the respondents for the objectivity of internal audit departments. Therefore, the null hypothesis is supported ($P>0.05$), there are no significant differences between objectivity of internal audit departments in Sudanese banks factored by auditors' educational levels.

As can be seen from the appendix (3.1) the means reported by auditors holding professional certificates in accounting are the lower means. This could be an indicator that professional accountants evaluated objectivity of internal audit departments less positively than other respondents.

6.3.3 Years of experience in auditing and evaluation of objectivity:

Table 6-11 Results of one-way ANOVA evaluation of objectivity factored by years of experience in auditing profession.

Hypothesis 1.2

<u>H*O:* There are no differences in mean levels of objectivity when factored by auditors experience in auditing.</u>

<u>H*A*: At least one of the mean levels of objectivity is different when factored by auditors experience in auditing.</u>

No	Variable	F Value	Sig.	Hypothesis supported
1	Organisational status	1.160	.331	HO
2	Management interference in internal auditing work	2.638	.037	HA
3	Freedom to review any area in the bank	1.473	.214	HO
4	Board of directors enhancement of internal auditors	1.415	.232	HO
5	Internal auditor revision of previous work.	.423	.791	HO
6	Conflict of interest	1.616	.174	HO
7	Relationship with executive management	.026	.999	HO
8	Appointment of internal auditing directors	.844	.499	HO
9	Removal of internal auditing directors	.264	.901	HO
10	Reporting times in the year	.736	.569	HO
11	Position of internal audit department in the organisational structure	2.593	.039	HA
12	Reporting level	.279	.891	HO
13	Free access to information	.070	.991	HO
14	Free access to employees	.242	.914	HO

For more details see appendix (3.2)

HYPOTHESES TESTING:

Hypothesis 1.2 (H 1.2)

Auditors' experience in auditing and evaluation of objectivity of internal audit departments

From Table (6-11) it can be noticed that only two statements have significant difference (2 and 11) and 12 statements of the scale are not significant. The null hypothesis is supported ($p>0.05$). Therefore, there are no significant differences between objectivity of internal audit departments of Sudanese banks factored by auditors' experience in auditing. However, Table (6-11) showed that the means of auditors with experience over 20 years are the lower means in the scale in the majority of the questions.

6.3.4 Years of experience in internal auditing and evaluation of objectivity:

Table 6-12 Results of one-way ANOVA evaluation of objectivity factored by years of experience in internal auditing.

Hypothesis 1.3

HO: There are no differences in mean levels of objectivity when factored by internal auditors' experience in internal auditing.

HA: At least one of the mean levels of objectivity is different when factored by internal auditors' experience in internal auditing.

No	Variable	F Value	Sig.	Hypothesis Supported
1	Organisational status	.657	.581	HO
2	Management interference in internal auditing work	.164	.921	HO
3	Freedom to review any area in the bank	.595	.620	HO
4	Board of directors enhancement of internal auditors	.773	.512	HO
5	Internal auditor revision of previous work.	1.089	.358	HO
6	Conflict of interest	1.463	.230	HO
7	Relationship with executive management	.630	.598	HO
8	Appointment of internal auditing directors	1.493	.222	HO
9	Removal of internal auditing directors	.493	.688	HO
10	Reporting times in the year	2.013	.118	HO
11	Position of internal audit department in the organisational structure	.591	.622	HO
12	Reporting level	1.218	.308	HO
13	Free access to information	.586	.626	HO
14	Free access to employees	.436	.728	HO

For more details see appendix (3.3)

HYPOTHESES TESTING:

Hypothesis 1.3 (H1.3)

Internal auditors' experience in internal auditing and evaluation of objectivity of internal audit departments

From the results of one-way ANOVA presented in Table (6-12), it can be seen that all of the 14 variables in objectivity scale are not significant. The null hypothesis is supported (p>0.05), there are no significant differences between objectivity of internal audit departments in Sudanese banks factored by internal auditors' experience in internal auditing. Therefore, internal auditor' experience in internal auditing in Sudanese banks dose not play any significant role in evaluating the objectivity of internal audit departments.

6.3.5 the number of internal auditors in the internal audit department and evaluation of objectivity:

Table 6-13 Results of one–way ANOVA evaluation of objectivity factored by number of internal auditors in the internal audit department.

Hypothesis 1.4

HO: There are no differences in mean levels of objectivity when factored by the number of internal auditors working in the internal audit department.

HA: At least one of the mean levels of objectivity is different when factored by the number of internal auditors working in the internal audit department.

No	Variable	F Value	Sig.	Hypothesis supported
1	Organisational status	1.137	.338	HO
2	Management interference in internal auditing work	2.286	.084	HO
3	Freedom to review any area in the bank	.614	.608	HO
4	Board of directors enhancement of internal auditors	.720	.543	HO
5	Internal auditor revision of previous work.	.782	.507	HO
6	Conflict of interest	.976	.408	HO
7	Relationship with executive management	1.106	.351	HO
8	Appointment of internal auditing directors	1.080	.362	HO
9	Removal of internal auditing directors	.309	.819	HO
10	Reporting times in the year	.226	.878	HO
11	Position of internal audit department in the organisational structure	3.508	.018	HA
12	Reporting level	.708	.549	HO
13	Free access to information	.442	.724	HO
14	Free access to employees	.123	.964	HO

For more details see appendix (3.4)

HYPOTHESES TESTING:

Hypothesis 1.4 (H 1.4)

The number of internal auditors in the internal audit department and evaluation of objectivity.

Considering the significance of the 14 variables in objectivity scale in Table (6-13), it can be seen that only one variable has a significant value (variable11). The null hypothesis is supported ($p>0.05$). There are no significant differences between the evaluations of objectivity factored by numbers of internal auditors in the internal audit departments in Sudanese banks. It can be concluded that the number of internal auditors in the internal audit department has no any influence on the evaluation of objectivity of internal audit departments in Sudanese banks.

6.4 Results of competence of internal audit departments:

6.4.1 Mean Scores, competence

Table 6-14 means of competence variables

The Statement	Mean Score
1- I think the internal audit staff possess the knowledge needed to carry out their responsibilities.	3.601
2- In my opinion, the internal audit staff possess the skills needed to carry out their responsibilities.	3.483
3- The bank management encourages the internal audit staff to continually develop.	2.769
4- Some of the internal auditing staff in the bank have obtained a professional certification in auditing.	1.790
5- Some internal auditing staff in the bank are Certified Internal Auditors.	1.741
6- In my opinion the bank management only appoints internal auditors with accounting or auditing qualifications as internal auditors.	2.105
7- I think internal audit department staff are subject to regular training in auditing.	2.546
8- I feel not all of the internal auditing staff in the bank have experience in the audit profession.	2.629
9- I believe all of internal audit department staff in the bank have experience in internal auditing.	2.727
10- In general, I can say the internal auditing staff have the necessary professional competency.	3.832
11- I am able to say internal auditors maintain satisfactory relationships with other employees in the bank.	2.559
12- The board of directors manage the competence of internal audit departments.	3.119
13- I am able to say the internal audit staff has the necessary professional competence.	2.706
14- The bank management only appoints experienced internal auditors.	3.147
Overall mean, competence score	2.769

Table (6-14) is the results of means for competence variables. However, the result of overall mean (2.769) revealed that the internal auditors in Sudanese banks and external auditors responsible for bank's audits were between neutral and dissatisfied for competence variables for internal audit departments. It seems that the respondents have some concerns about the competence of internal audit departments. Statements No (4,5,6) –concerned with the educational qualifications of internal auditors-reported the lowest means in the scale.

6.4.2. Educational level and evaluation of competence:

Table 6-15 Results of one–way ANOVA evaluation of competence factored by educational level.

Hypothesis 2.1

H*O:* There are no differences in mean levels of internal audit department competence when factored by auditors' educational levels.

H*A:* At least one of mean levels of internal audit department competence is different when factored by auditors' educational levels.

No	Variable	F Value	Sig.	Hypothesis supported
1	Knowledge to carry out responsibilities	1.082	.368	HO
2	Skills to carry out responsibilities	2.185	.074	HO
3	Management encouraging internal audit staff to continually develop	.732	.571	HO
4	Internal audit staff holding professional certificate in auditing	.105	.981	HO
5	Availability of internal auditors with certificate in internal auditing	1.862	.121	HO
6	Appointing internal auditors with accounting and auditing qualifications	.703	.591	HO
7	Internal auditors training	.332	.856	HO
8	Experience in auditing profession	3.270	.013	HA
9	Experience in internal auditing	1.421	.230	HO
10	Staff professional competence	.717	.581	HO
11	Internal audit staff relations with other employees	1.902	.113	HO
12	Board of directors manage the competence of internal auditors	4.899	.001	HA
13	Appointment of experienced internal auditors	.206	.935	HO
14	Allocating employees from other departments to internal audit department	4.036	.004	HA

For more details see appendix (3.5)

HYPOTHESES TESTING:

Hypothesis 2.1 (H 2.1)

Educational level and evaluation of competence of internal audit departments

Table (6-15) one-way ANOVA showed that only 3 variables have significant values (8, 12&14) and 11 variables have no significant values. Based on this finding, it can be suggested that the educational level of both internal and external auditors has no effect in their evaluation of competence of internal audit departments of Sudanese banks. In other words, the null hypothesis is substantiated ($p>0.05$) there are no significant differences between competence of internal audit departments factored by auditors' educational levels in Sudanese banks. As can be seen from table (6-15) the means given by external auditors and auditors with master degrees and above are the lowest means. Although there are no significant differences across the respondents, it can be suggested that auditors with professional certificates and with master degrees tend to perceive these variables more negatively than other auditors who have lower qualifications.

6.4.3 Years of experience in auditing and evaluation of competence:

Table 6-16 Results of one-way ANOVA evaluation of competence factored by experience in auditing profession.

Hypothesis 2.2

HO: There are no differences in mean levels of internal audit department competence when factored by auditors' experience in auditing.

HA: At least one of mean levels of internal audit department competence is different when factored by auditors' experience in auditing.

No	Variable	F Value	Sig.	Hypothesis supported
1	Knowledge to carry out responsibilities	1.737	.145	HO
2	Skills to carry out responsibilities	2.988	.021	HA
3	Management encouraging internal audit staff to continually develop	.222	.926	HO
4	Internal audit staff holding professional certificate in auditing	2.693	.034	HA
5	Availability of internal auditors with certificate in internal auditing	1.879	.118	HO
6	Appointing internal auditors with accounting and auditing qualifications	1.569	.186	HO
7	Internal auditors training	.663	.619	HO
8	Experience in auditing profession	1.268	.286	HO
9	Experience in internal auditing	1.919	.111	HO
10	Staff professional competence	1.064	.377	HO
11	Internal audit staff relations with other employees	1.304	.272	HO
12	Board of directors manage the competence of internal auditors	3.984	.004	HA
13	Appointment of experienced internal auditors	1.676	.159	HO
14	Allocating employees from other departments to internal audit department	4.964	.001	HA

For more details see appendix (3.6)

HYPOTHESES TESTING:

Hypothesis 2.2 (H 2.2)

Experience in auditing profession and evaluation of competence of internal audit departments

From the results of one-way ANOVA presented in Table (6-16), it can be seen that only four variables from the scale have significant values and 10 have non-significance values. According to this result, experience of internal and external auditors in the field of auditing profession has not any effect in the evaluation of competence of internal audit departments in Sudanese banks. Therefore the null hypothesis is accepted ($p>0.05$). There are no significant differences between the evaluations of competence of internal audit department factored by auditors' experience in auditing profession in Sudanese banks.

6.4.4 Years of experience in internal auditing and evaluation of competence:

Table 6-17 Results of one-way ANOVA evaluation of competence factored by years of experience in internal auditing.

Hypothesis 2.3

H*O:* There are no differences in mean levels of internal audit department competence when factored by internal auditors' experience in internal auditing.

H*A*: At least one of mean levels of internal audit department competence is different when factored by auditors' experience in internal auditing.

No	Variable	F Value	Sig.	Hypothesis supported
1	Knowledge to carry out responsibilities	.657	.581	HO
2	Skills to carry out responsibilities	.164	.921	HO
3	Management encouraging internal audit staff to continually develop	.595	.620	HO
4	Internal audit staff holding professional certificate in auditing	.773	.512	HO
5	Availability of internal auditors with certificate in internal auditing	1.089	.358	HO
6	Appointing internal auditors with accounting and auditing qualifications	1.463	.230	HO
7	Internal auditors training	.630	.598	HO
8	Experience in auditing profession	1.493	.222	HO
9	Experience in internal auditing	.493	.688	HO
10	Staff professional competence	2.013	.188	HO
11	Internal audit staff relations with other employees	.591	.622	HO
12	Board of directors manage the competence of internal auditors	1.218	.308	HO
13	Appointment of experienced internal auditors	.586	.626	HO
14	Allocating employees from other departments to internal audit department	.436	.728	HO

For more details see appendix (3.7)

HYPOTHESES TESTING:

Hypothesis 2.3 (H 2.3)

Experience in internal auditing and evaluation of competence of internal audit departments

From Table (6-17) it can be concluded that the 14 variables in the scale are not significant. Therefore, the null hypothesis is supported ($p>0.05$). There are no significant differences between the evaluations of competence of internal audit departments factored by auditors' experience in internal auditing profession in Sudanese banks. This result showed that experience of internal auditors in internal auditing does not explain any significant difference.

6.4.5 The number of internal auditors in the internal audit department and evaluation of competence:

Table 6-18 Results of one–way ANOVA evaluation of competence factored by number of internal auditors in the internal audit department.

Hypothesis 2.4

HO: There are no differences in mean levels of internal audit department competence when factored by the number of internal auditors working in the department.

HA: At least one of mean levels of internal audit department competence is different when factored by the number of internal auditors working in the department.

No	Variable	F Value	Sig.	Hypothesis supported
1	Knowledge to carry out responsibilities	.452	.717	HO
2	Skills to carry out responsibilities	1.058	.371	HO
3	Management encouraging internal audit staff to continually develop	3.656	.015	HA
4	Internal audit staff holding professional certificate in auditing	.949	.420	HO
5	Availability of internal auditors with certificate in internal auditing	.323	.809	HO
6	Appointing internal auditors with accounting and auditing qualifications	1.984	.122	HO
7	Internal auditors training	1.825	.148	HO
8	Experience in auditing profession	2.941	.037	HA
9	Experience in internal auditing	.756	.521	HO
10	Staff professional competence	.590	.623	HO
11	Internal audit staff relations with other employees	3.135	.029	HA
12	Board of directors manage the competence of internal auditors	.366	.778	HO
13	Appointment of experienced internal auditors	.482	.969	HO
14	Allocating employees from other departments to internal audit department	.637	.593	HO

For more details see appendix (3.8)

HYPOTHESES TESTING:

Hypothesis 2.4 (H 2.4)

The number of internal auditors in the internal audit department and evaluation of competence.

Considering that 11 variables in the scale Table (6-18) have non-significant values and only three variables have significant values, it can be argued that the null hypothesis is supported ($p>0.05$). Therefore, there are no significant differences between the evaluations of competence factored by the numbers of internal auditors in the internal audit department in Sudanese banks. This result suggested that the number of internal auditors in the internal audit department has no any influence on the evaluation of competence of their departments. Although there is no significant relationship, It can be seen from Table (6-18) that the departments that have more than 15 internal auditors have the lowest means.

6.5 Results of work performance of internal audit departments:
6.5.1 Mean Scores, work performance

Table 6-19 means of work performance and monitoring of internal controls variables

The Statement	Mean Score
1- I can say the director of internal audit department is supervising his/her staff through defined system of responsibilities.	4.000
2- I believe the number of internal auditors in the bank is not sufficient when it is compared with the number of branches they audit.	2.546
3- There are audit schedules for the bank branches/departments audits.	3.755
4- I really feel the internal audit department develops appropriate audit plans for established audit objectives.	3.678
5- I feel the bank internal auditors examine the reliability and integrity of information.	3.867
6- I believe the internal auditors review the adequacy of risk management on a regular basis.	3.546
7- I am confident the internal auditing staff checks whether the established operating systems in the bank ensure compliance with policies and regulations.	3.678
8- I believe the internal auditors review operations to ascertain whether results are consistent with established objectives.	3.454
9- There are corrective actions on the findings of the internal auditors.	3.741
10- The internal audit department do not apply the same rules for all levels of the bank.	3.056
11- I can say the director of the internal audit department regularly checks the quality of working papers.	3.469
12- The internal auditing staff evaluate the adequacy of the bank internal control system.	3.622
13-In my opinion the internal audit staff review the systems used for safeguarding the bank assets.	3.734
14- The internal audit department in the bank monitors the financial controls to ensure the reliability of financial reporting.	3.643
15- I feel the internal audit department in the bank checks the financial controls are implemented properly.	3.692
16- There is a regular evaluation of risk management procedures.	3.336
17- In my opinion the internal auditing staff understands the nature of operational controls.	3.629
18- The internal audit department in the bank do not ensure compliance controls achieve compliance with laws and regulations.	3469
19- I am able to say the internal audit department in the bank is responsible for the evaluation of the internal control system.	4.021
Overall mean, work performance score	3.577

Table (6-19) is the results of means for work performance and monitoring of internal controls in Sudanese banks. The result of overall mean (3.577) revealed that the internal auditors in Sudanese banks and external auditors responsible for bank's audits are satisfied with the work performance of internal audit departments. With exception to statement no. 2 in the scale, all of the other statements are showing agreement to the statements.

6.5.2 Educational level and evaluation of work performance of internal audit departments in Sudanese banks:

Table 6-20 Results of one-way ANOVA evaluation of work performance and monitoring of internal controls factored by educational level.

Hypothesis 3.1

HO: There are no differences in mean levels of internal audit department work performance and monitoring of internal controls when factored by auditors' educational level.

HA: At least one of the mean levels of internal audit department work performance and monitoring of internal controls is different when factored by auditors' educational level.

No	Variable	F Value	Sig.	Hypothesis supported
1	Supervision of internal auditing staff	3.518	.009	HA
2	Number of internal auditors to the number of branches audited	.715	.583	HO
3	Existence of audit schedules for branches/departments audits	8.035	.000	HA
4	Existence of appropriate audit plans for established audit objectives	4.496	.002	HA
5	Examination of reliability and integrity of information	5.613	.000	HA
6	Revision of adequacy of risk management regularly	4.609	.002	HA
7	Operating system complied with policies and regulations	3.337	.012	HA
8	Operation results are consistent with the bank objectives	2.980	.021	HA
9	Corrective actions on the internal auditors finings	2.339	.058	HO
10	Applying the same rules for all levels of banks	.766	.549	HO
11	Checking working papers quality	2.756	.030	HA
12	Checking the adequacy of internal control system.	4.166	.003	HA
13	Safeguarding the bank assets	1.724	.148	HO
14	Monitoring the financial controls to ensure reliability of financial reporting	1.581	.183	HO
15	Checking the financial controls	3.373	.011	HA
16	Regular evaluation of risk management procedures	6.935	.000	HA
17	Understanding the nature of operational controls	5.394	.000	HA
18	Compliance controls are in line with laws and regulations	1.369	.248	HO
19	Evaluation of internal controls	5.359	.000	HA

For more details see appendix (3.9)

HYPOTHESES TESTING:

Hypothesis 3.1 (H 3.1)

Educational level and evaluation of performance of internal audit departments

To test this hypothesis, the one-way ANOVA test was used. The result of this test is presented in Table (6-20). According to the results, 13 variables have significant values and only 6 variables with non-significant values. Hence, there is a significant difference between the views of auditors regarding the work performance of internal audit departments in Sudanese banks. Thus the null hypothesis is rejected ($p<0.05$). At least one of the educational levels is different for work performance of internal audit department in Sudanese banks. As can be seen from Table (6-20), the influence of accounting certification is clear that external auditors' means seemed to be the lowest means across other means in the table while auditors graduated from High schools provided the highest means.

6.5.3Years of experience in auditing and evaluation of work performance of internal audit departments in Sudanese banks:

Table 6-21 Results of one-way ANOVA evaluation of work performance and monitoring of internal controls factored by experience in auditing profession.

Hypothesis 3.2

HO: There are no differences in mean levels of internal audit department work performance and monitoring of internal controls when factored by auditors' experience in auditing.

HA: At least one of the mean levels of internal audit department work performance and monitoring of internal controls is different when factored by auditors' experience in auditing.

No	Variable	F Value	Sig.	Hypothesis supported
1	Supervision of internal auditing staff	2.131	.080	HO
2	Number of internal auditors to the number of branches audited	.186	.945	HO
3	Existence of audit schedules for branches/departments audits	5.200	.001	HA
4	Existence of appropriate audit plans for established audit objectives	3.735	.006	HA
5	Examination of reliability and integrity of information	2.862	.026	HA
6	Revision of adequacy of risk management regularly	4.408	.002	HA
7	Operating system complied with policies and regulations	2.959	.022	HA
8	Operation results are consistent with the bank objectives	2.271	.065	HO
9	Corrective actions on the internal auditors finings	1.684	.157	HO
10	Applying the same rules for all levels of banks	.951	.436	HO
11	Checking working papers quality	1.504	.205	HO
12	Checking the adequacy of internal control system.	5.666	.000	HA
13	Safeguarding the bank assets	3.263	.014	HA
14	Monitoring the financial controls to ensure reliability of financial reporting	4.907	.001	HA
15	Checking the financial controls	3.553	.009	HA
16	Regular evaluation of risk management procedures	3.798	.006	HA
17	Understanding the nature of operational controls	4.568	.002	HA
18	Compliance controls are in line with laws and regulations	1.673	.160	HO
19	Evaluation of internal controls	3.092	.018	HA

For more details see appendix (3.10)

HYPOTHESES TESTING:

Hypothesis 3.2 (H3.2)

Experience in auditing profession and evaluation of work performance of internal audit departments

Given that 12 variables have significant values and only 7 variables have non-significant values (Table, 6-21), it can be concluded that the null hypothesis is not accepted ($p<0.05$). At least one of the auditors' years of experience in auditing is different for the evaluation of work performance and monitoring of internal controls of internal audit departments in Sudanese banks. In addition, the results of means showed that auditors with experience of more than 20 years scored the lowest means. Moreover, auditors with experience of less than 2 years scored the highest means. This result suggested that auditors with experience in the auditing profession evaluated work performance of internal audit departments more negatively than other groups in the table.

6.5.4Years of experience in internal auditing and evaluation of work performance of internal audit departments in Sudanese banks:

Table 6-22 Results of one–way ANOVA evaluation of work performance and monitoring of internal controls factored by years of experience in internal auditing.

Hypothesis 3.3

<u>H*O*: There are no differences in mean levels of internal audit department work performance and monitoring of internal controls when factored by internal auditors' experience in internal auditing.</u>

<u>H*A*: At least one of the mean levels of internal audit department work performance and monitoring of internal controls is different when factored by internal auditors' experience in internal auditing.</u>

No	Variable	F Value	Sig.	Hypothesis supported
1	Supervision of internal auditing staff	.131	.941	HO
2	Number of internal auditors to the number of branches audited	.636	.594	HO
3	Existence of audit schedules for branches/departments audits	.856	.467	HO
4	Existence of appropriate audit plans for established audit objectives	.382	.766	HO
5	Examination of reliability and integrity of information	1.831	.147	HO
6	Revision of adequacy of risk management regularly	.569	.637	HO
7	Operating system complied with policies and regulations	.664	.576	HO
8	Operation results are consistent with the bank objectives	.179	.911	HO
9	Corrective actions on the internal auditors finings	.146	.932	HO
10	Applying the same rules for all levels of banks	.967	.412	HO
11	Checking working papers quality	.304	.822	HO
12	Checking the adequacy of internal control system.	1.073	.365	HO
13	Safeguarding the bank assets	.255	.858	HO
14	Monitoring the financial controls to ensure reliability of financial reporting	.664	.576	HO
15	Checking the financial controls	.590	.623	HO
16	Regular evaluation of risk management procedures	.273	.844	HO
17	Understanding the nature of operational controls	.164	.920	HO
18	Compliance controls are in line with laws and regulations	.162	.922	HO
19	Evaluation of internal controls	.063	.979	HO

For more details see appendix (3.11)

HYPOTHESES TESTING:

Hypothesis 3.3 (H 3.3)

Experience in internal auditing and evaluation of work performance of internal audit departments

To examine this hypothesis, the one-way ANOVA test was used. The results of this test are presented in Table (6-22). Considering that all the variables in the scale showed non-significant values, therefore, the null hypothesis is accepted ($p>0.05$) that there are no significant differences between evaluation of work performance and monitoring of internal controls factored by auditors' experience in internal auditing profession in Sudanese banks. This result indicated that experience of internal auditors in Sudanese banks has any influence in their evaluation of work performance of internal audit departments.

6.5.5 The numbers of internal auditors in the internal audit department and evaluation of work performance:

Table 6-23 Results of one-way ANOVA evaluation of work performance and monitoring of internal controls factored by the numbers of internal auditors working in the department.

Hypothesis 3.4

HO: There are no differences in mean levels of internal audit department work performance and monitoring of internal controls when factored by the number of internal auditors working in the department.

HA: At least one of mean levels of internal audit department work performance and monitoring of internal controls is different when factored by the number of internal auditors working in the department.

No	Variable	F Value	Sig.	Hypothesis supported
1	Supervision of internal auditing staff	1.853	.143	HO
2	Number of internal auditors to the number of branches audited	1.578	.200	HO
3	Existence of audit schedules for branches/departments audits	.374	.772	HO
4	Existence of appropriate audit plans for established audit objectives	.903	.443	HO
5	Examination of reliability and integrity of information	.720	.543	HO
6	Revision of adequacy of risk management regularly	2.209	.092	HO
7	Operating system complied with policies and regulations	1.634	.178	HO
8	Operation results are consistent with the bank objectives	1.413	.244	HO
9	Corrective actions on the internal auditors finings	.794	.500	HO
10	Applying the same rules for all levels of banks	.173	.915	HO
11	Checking working papers quality	1.473	.227	HO
12	Checking the adequacy of internal control system.	.626	.600	HO
13	Safeguarding the bank assets	.762	.518	HO
14	Monitoring the financial controls to ensure reliability of financial reporting	.316	.814	HO
15	Checking the financial controls	.273	.845	HO
16	Regular evaluation of risk management procedures	.340	.796	HO
17	Understanding the nature of operational controls	3.403	.021	HA
18	Compliance controls are in line with laws and regulations	.182	.908	HO
19	Evaluation of internal controls	.257	.856	HO

For more details see appendix (3.12)

HYPOTHESES TESTING:

Hypothesis 3.4 (H 3.4)

The number of internal auditors in the internal audit department and evaluation of work performance.

From Table (6-23) it can be noticed that 18 variables of the scale showed non-significant values, while only variable no.17 indicated a significant difference. Based on this result the null hypothesis is supported ($p>0.05$). There are no significant differences between the evaluation of wok performance and monitoring of internal controls factored by the number of internal auditors in the internal audit department in Sudanese banks. Therefore, the number of internal auditors in the internal audit departments in Sudanese banks has no influence in the evaluation of work performance.

6.6 Results of external auditors' reliance decision on the work of internal auditors in Sudanese banks:

6.6.1 Mean Scores, external auditors' reliance on the work of internal auditors

Table 6-24 means of external auditor's reliance decision on the work of internal auditors

The Statement	Mean Score
1- As external auditor, I believe the internal audit department in the banks reports to the highest level in the bank.	2.717
2- As external auditor, I can say the scope of the internal audit function in banks is sufficient.	2.717
3- I can say the director of the internal audit department can control and supervise his staff	3.522
4- I can say the internal audit staff has free access to the bank records.	3.326
5- I believe the internal audit staff has free access to other employees in the bank.	3.369
6- I can rely on the quality of internal audit programmes.	2.652
7- I can say the internal audit department keeps reliable standards of working papers.	2.935
8- I think the internal audit department is not empowered to cover all the activities of the bank.	2.674
9- The response to internal audit reports by the management is reasonable.	2.935
10- I can place reliance on the internal auditor's knowledge of the bank operations.	3.152
11- I can rely on the internal auditor's knowledge of bank procedures.	3.109
12- In my opinion knowledge of new audit techniques by internal auditors is not satisfactory.	2.261
13- I believe internal auditing staff are subject to continuing education programmes specified for internal auditors	2.761
14- In my opinion the level of compliance between the work of internal auditors and the standards of professional practice of internal auditing is low.	2.478
15- I feel the responsibilities of internal auditors are assigned by reliable written policies.	3.500
16- In general, I rely on the internal auditors objectivity.	3.022
17- In general, I rely on the professional competence of internal auditors	2.609
18- In general, I rely on the work performance of internal auditors.	3.000
19- In general, I rely on the internal audit staff ability to monitor the internal controls.	2.913
20- I rely on the work of internal auditors to reduce the cost of external audit.	2.500
21- Availability of the internal audit function in the bank reduces the cost of external audit.	3.152
22- I used to assign specific audit work to the internal auditors to reduce the cost of external audit.	1.978
Overall mean external auditors' reliance on the work of internal auditors score.	2.876

Table (6-24) is the results of means for external auditor's reliance decision on the work of internal auditors in Sudanese banks. The result of overall mean (2.876) indicated that external auditors responsible for Sudanese banks' audits were neutral and dissatisfied for reliance on the work of internal auditors variables. Regarding the scale variables, variables No (1,2,6,7,8,9,12,13,14,17,19,20&22) indicated that external auditors are not completely relying on the work of internal audit departments, especially the last statement.

6.6.2 Educational level and external auditors' reliance decision on the work of internal auditors in Sudanese banks:

Table 6-25 Results of one –way ANOVA evaluation of reliance decision on the work of internal auditors factored by educational level.

Hypothesis 4.1

HO: There are no differences in mean levels of external auditors' reliance decision on the work of internal auditors when factored by auditors' educational levels.

HA: At least one of mean levels of external auditors' reliance decision on the work of internal auditors is different when factored by auditors' educational levels.

No	Variable	F Value	Sig.	Hypothesis supported
1	RD* and reporting level	2.474	.075	HO
2	Scope of internal auditing is complete	1.175	.331	HO
3	Control of internal audit staff	.452	.717	HO
4	RD and free access to bank records	1.790	.164	HO
5	RD and free access to bank employees	.428	.734	HO
6	Relying of the quality of internal audit programmes	.645	.591	HO
7	Keeping reliable standards of working papers	.884	.457	HO
8	RD and covering all of bank activities	1.081	.368	HO
9	Response to internal auditing reports	1.452	.241	HO
10	Reliability on internal auditors' knowledge of banking operations	1.163	.335	HO
11	Reliability on internal auditors' knowledge of banking procedures	.453	.716	HO
12	Knowledge of new internal audit techniques	2.350	.086	HO
13	Internal auditors training	.437	.728	HO
14	Compliance between the work of internal auditors and the standards of professional practice of internal auditing	1.720	.177	HO
15	Existence of internal audit manuals	.649	.588	HO
16	General reliance on internal auditors objectivity	.175	.913	HO
17	General reliance on internal auditors professional competence	.424	.737	HO
18	General reliance on internal auditors work performance	2.013	.127	HO
19	General reliance on internal auditors ability to monitor the control system	.670	.575	HO
20	Reliance to reduce the cost	2.884	.047	HA
21	Availability of internal auditing to reduce the cost	1.119	.352	HO
22	Assigning work to internal auditors to reduce the cost	1.152	.339	HO

For more details see appendix (3.13)

- RD Reliance Decision

HYPOTHESES TESTING:

Hypothesis 4.1 (H 4.1)

Educational level and evaluation of performance of internal audit departments

To test this hypothesis, one-way ANOVA test was used. The results of the test are presented in Table (6-25). It can be noticed that all of the variables in the scale are not significant except variable no. 20. However, this result indicated that there is no significant difference between the respondents regarding their reliance decision on the work of internal auditors in Sudanese banks. The null hypothesis supported ($P>0.05$). There are no significant differences between external auditors' reliance decision on the work of internal auditors factored by auditors' educational levels in Sudanese banks. This result showed that the educational level of external auditors has no any significant influence on their decision to rely the work of internal auditors in Sudanese banks.

6.6.3 External auditors' experience and reliance decision on the work of internal auditors in Sudanese banks:

Table 6-26 Results of one –way ANOVA evaluation of reliance decision on the work of internal auditors factored external auditors' experience.

Hypothesis 4.2

HO: There are no differences in mean levels of external auditors' reliance decision on the work of internal auditors when factored by auditors' experience in auditing.

HA: At least one of mean levels of external auditors' reliance decision on the work of internal auditors is different when factored by auditors' experience in auditing.

No	Variable	F Value	Sig.	Hypothesis supported
1	RD and reporting level	1.328	.278	HO
2	Scope of internal auditing is complete	.428	.734	HO
3	Control of internal audit staff	1.363	.267	HO
4	RD and free access to bank records	2.267	.065	HO
5	RD and free access to bank employees	1.743	.173	HO
6	Relying of the quality of internal audit programmes	.962	.420	HO
7	Keeping reliable standards of working papers	.395	.757	HO
8	RD and covering all of bank activities	.103	.958	HO
9	Response to internal auditing reports	1.408	.254	HO
10	Reliability on internal auditors' knowledge of banking operations	1.067	.373	HO
11	Reliability on internal auditors' knowledge of banking procedures	1.225	.312	HO
12	Knowledge of new internal audit techniques	1.412	.253	HO
13	Internal auditors training	.353	.788	HO
14	Compliance between the work of internal auditors and the standards of professional practice of internal auditing	1.184	.327	HO
15	Existence of internal audit manuals	1.225	.313	HO
16	General reliance on internal auditors objectivity	1.084	.366	HO
17	General reliance on internal auditors professional competence	.205	.892	HO
18	General reliance on internal auditors work performance	.389	.762	HO
19	General reliance on internal auditors ability to monitor the control system	1.490	.231	HO
20	Reliance to reduce the cost	.216	.884	HO
21	Availability of internal auditing to reduce the cost	.533	.662	HO
22	Assigning work to internal auditors to reduce the cost	2.173	.105	HO

For more details see appendix (3.14)

HYPOTHESES TESTING:

Hypothesis 4.2 (H4.2)

Experience in auditing profession and evaluation of work performance of internal audit departments

From table (6-26) it can be noticed that all of the variable in the scale have non-significant values. This result revealed that there are no significant difference between the experience of external auditors responsible for bank audits and their degree of reliance on the work of internal auditors in Sudanese banks. The null hypothesis is supported ($p>0.05$). There are no significant differences between external auditors' reliance decision on the work of internal auditors factored by experience in auditing profession in Sudanese banks. It can be argued that the experience of external auditors has no any influence on the degree of reliance placed by external auditors on the work of internal auditors.

6.7 Results of t-test on conflated data

6.7.1 Gender hypotheses testing

To examine gender hypotheses, t-test was used. The researcher used the following equation to calculate if there is a significant difference or not between the two groups (male, female) based on the respondents' answers on all scales conflated. As the population of the study is more than 120 (109 males and 34 females auditors), the result of this equation was compared with the critical t value (1.645), which represents the critical value for populations more than 120 individuals (n>120) in the Table Points of the t Distribution with 0.95 level of confidence (5% significance).

Figure 6.1 Gender equation:

$$t = \frac{* \ \bar{x}_{Males} - \bar{x}_{Females}}{S^2 / \sqrt{n}}$$

- $\bar{x}$Males represents the overall mean for males in each scale (objectivity, competence& work performance scales),
- $\bar{x}$Females represent the overall mean for females in each scale.
- S^2 represents the sample variance.
- $\sqrt{}$ n stands for the Square Root of the number of males or females*the number of the questions in each scale.

6.7.1.1 Auditors' gender and evaluation of objectivity:

HO: There is no significant difference between male and female auditors in their evaluation of objectivity of internal audit departments in Sudanese banks.

HA: There is a significant difference between male and female auditors in their evaluation of objectivity of internal audit departments in Sudanese banks.

Hypothesis 1.5 (H 1.5)

Figure 6.2 Auditors' gender and evaluation of objectivity equation:

$$t = \frac{2.948 - 2.698}{1.77 / \sqrt{1526}} = 5.518$$

Result: t = 5.518

As can be seen from the result of figure 5.2, the value of t (5.518) is more than the critical t = (1.645). This result indicated that there is statistically a significant difference between the two groups ($p<0.05$). Thus, the null hypothesis is rejected. Therefore, it can be concluded that there is a significant difference between the views of males and females regarding the issue of objectivity of internal audit departments in Sudanese banks ($p<0.05$).

6.7.1.2 Auditors' gender and evaluation of competence:

H*O:* There is no significant difference between male and female auditors in their evaluation of competence of internal audit departments in Sudanese banks.

H*A:* There is a significant difference between male and female auditors in their evaluation of competence of internal audit departments in Sudanese banks.

Hypothesis 2.5 (H 2.5)

Figure 6.3 Auditors' gender and evaluation of competence equation:

$$t = \frac{2.755 - 2.582}{1.40 / \sqrt{1526}} = 4.838$$

Result: t = 4.838

The result of this test is presented through equation figure 6.3. As can be seen from the result of the equation t value is (4.838) is more than critical t = (1.645). This result revealed that there is statistically significant difference between males and females regarding competence of internal audit departments ($p<0.05$). Therefore, the null hypothesis is not supported.

6.7.1.3 Auditors' gender and evaluation of work performance:

HO: There is no significant difference between male and female auditors in their evaluation of work performance of internal audit departments in Sudanese banks.

HA: There is a significant difference between male and female auditors in their evaluation of work performance of internal audit departments in Sudanese banks.

Hypothesis 3.5 (H 3.5)

Figure 6.4: Auditors' gender and evaluation of work performance:

$$t = \frac{3.647 - 3.345}{1.02 / \sqrt{2071}} = 13.421$$

Result: t = 13.421

In figure 3.6 the above equation was used to calculate the value of t. The result of the equation was 13.42. This value appears to be higher than the critical value (1.645), thus, the null hypothesis is rejected. This result showed that there is statistically significant difference between male and females auditors in their evaluation of work performance of internal audit departments in Sudanese banks. According to the overall means of the two groups in their evaluation of work performance, it could be suggested that males and females evaluated work performance more positively than objectivity and competence variables.

6.7.2 Auditors' occupation hypotheses testing:

One of the objectives of this research is to examine if there is a differences between the views of internal and external auditors regarding the three variables of the study (objectivity, competence and work performance). As the study examines two different groups, t-test was used. The researcher used the following equation to calculate if there is a significant difference or not between the two groups (internal and external auditors) based on the respondents answers on all scales conflated. As the population of the study is more than 120 (97internal auditor and 46 external auditors, 143 in total), the result of this equation was compared with the critical t value (1.645), which represents the critical value for populations more than 120 individuals (n>120) in the Table Points of the t Distribution with 0.95 level of confidence (5% significance).

Figure 6.5 Auditors' occupation equation:

$$t = \frac{* \ \bar{x}_{\text{Internal auditors}} - \bar{x}_{\text{External auditors}}}{S^2 / \sqrt{n}}$$

- $\bar{x}$Internal auditors: represents the overall mean for internal auditors in each scale (objectivity, competence & work performance)
- $\bar{x}$External auditors: represents the overall mean for external auditors in each scale.
- S^2 represents the sample variance.
- $\sqrt{n}$: stands for the Square Root of the number of internal or external auditors*the number of the questions in each scale.

6.7.2.1 Auditors' occupation and evaluation of objectivity:

HO: There is no significant difference between internal and external auditors in their evaluation of objectivity of internal audit departments in Sudanese banks.

HA: There is a significant difference between internal and external auditors in their evaluation of objectivity of internal audit departments in Sudanese banks.

Hypothesis 1.6 (H 1.6)

Figure 6.6 Auditors' occupation and evaluation of objectivity equation:

$$t = \frac{2.982 - 2.499}{1.84 / \sqrt{1358}} = 9.632$$

Result: t = 9.632

To test this hypothesis, t- test was used. The result of this test is calculated according to figure 6.6. As can be seen from the result of the equation the value of t (9.632) is higher than the critical value (1.645). Based on this result, it can be argued that there is statistically a significant difference between the two groups, thus the null hypothesis is rejected. The result thus indicates that the occupation variable can explain variance in their evaluation of objectivity of internal audit departments in Sudanese banks. In other words, there is a significant difference between the views of internal and external auditors regarding the issue of objectivity ($p < 0.05$).

6.7.2.2 Auditors' occupation and evaluation of competence:

HO: There is no significant difference between internal and external auditors in their evaluation of competence of internal audit departments in Sudanese banks.

HA: There is a significant difference between internal and external auditors in their evaluation of competence of internal audit departments in Sudanese banks.

Hypothesis 2.6 (H 2.6)

Figure 6.7 Auditors' occupation and evaluation of competence equation:

$$t = \frac{2.862 - 2.477}{1.46 / \sqrt{1358}} = 9.691$$

Result: t = 9.691

Figure 6.7 showed that the t value of 9.691 is significant when compared with the critical value (1.645). Thus the null hypothesis is not supported. This result revealed that the auditors' occupation could significantly affect the evaluation of competence of internal audit departments ($p<0.05$). The overall mean values of internal auditors (2.862) and external auditors (2.477) showed that internal auditors evaluated the competence more positively than the evaluation of external auditors.

6.7.2.3 Auditors' occupation and evaluation of work performance:

HO: There is no significant difference between internal and external auditors in their evaluation of work performance of internal audit departments in Sudanese banks.

HA: There is a significant difference between internal and external auditors in their evaluation of work performance of internal audit departments in Sudanese banks.

Hypothesis 3.6 (H 3.6)

Figure 6.8 Auditors' occupation and evaluation of work performance equation:

$$t = \frac{3.845 - 3.007}{0.838 / \sqrt{1843}} = 41.021$$

Result: t = 41.021

To examine this hypothesis, t-test was used. The value of t is (41.021) is more than the critical value t = (1.645). This result indicated that there is a significant difference between internal and external auditors in their evaluation of work performance of internal audit departments of Sudanese banks ($p<0.05$). Hence, the null hypothesis is not supported. The results also showed that internal auditors of Sudanese banks and external auditors responsible for bank audits evaluated the work performance more positively (their means over 3.000).

6.7.2.4 Auditors' sector and evaluation of reliance decision on the work of internal auditors:

The objective of this hypothesis is to examine if there is a statistically difference between the views of external auditors practicing the profession in private firms and those working in the General Auditor Chamber (GAC) regarding their reliance decision on the work of internal auditors. As the study examines two different groups, t-test was used. The researcher used the following equation to calculate if there is a significant difference between the two groups (external auditors, working in private firms/GAC) based on the respondents' answers on the conflated scale (used to measure the reliance decision on the work of internal auditors). As the population of external auditors is only 46 (20 private, 26 GAC) the result of this equation was compared with the critical t value (1.684), which represents the critical value for population for 40-50 individuals (n = 40 – 50) in the Table Points of the t Distribution with 0.95 level of confidence (5% significance).

Figure 6.9 Auditors' sector equation:

$$t = \frac{\bar{x}_{\text{External auditors (private)}} - \bar{x}_{\text{External auditors (public)}}}{S^2 / \sqrt{n}}$$

- $\bar{x}$External auditors (private): represents the overall mean for external auditors working in private audit firms regarding their reliance decision on the work of internal auditors in Sudanese banks.
- $\bar{x}$External auditors (public): represents the overall mean for external auditors working in the General Auditor Chamber regarding their reliance decision on the work of internal auditors in Sudanese banks.
- S^2 represents the variance.
- $\sqrt{n}$: stands for the Square Root of the number of internal or external auditors*the number of the questions in the scale.

H*O:* There is no significant difference between external auditors practising in private audit firms and those practising in GAC in their degree of reliance on the work of internal auditors in Sudanese banks.

H*A:* There is no significant difference between external auditors practising in private audit firms and those practising in GAC in their degree of reliance on the work of internal auditors in Sudanese banks.

Hypothesis 4.3 (H 4.3)

Figure 6.10 Auditors' sector and reliance decision on the work of internal auditors equation:

$$t = \frac{3.027 - 2.761}{1.024 / 440} = 3.834$$

Result: t = 3.834

As can be seen from the result of equation No 7 the value of t (3.834) is more than critical t = (1.684). This result showed that there significant difference between the external auditors working in private audit firms and those working GAC ($p<0.05$). Thus, the null hypothesis is rejected. The result showed that there is a significant difference between the views of external auditors working in private audit firms and external auditors working in the GAO in relation to their degree of reliance on the work of internal auditors in Sudanese banks. The results also showed that the overall mean of external auditors (private) is lower than the overall mean of external auditors (public) responsible for government banks' audits. This result can be an indicator that external auditors in private firms are placing relying more reliance on the work of internal auditors than external auditors practising in the GAC in Sudanese banks.

6.8 Questionnaire results discussion:

6.8.1 Objectivity of internal audit departments in Sudanese banks:

The questionnaire design was built on the factors affecting the objectivity; therefore, the descriptive discussion of objectivity will be based on the following factors, Firstly, the organisational status of the internal audit departments. Secondly, the organisational position of the internal audit department within the bank. Thirdly, the reporting level of the internal audit department. Finally, the process of appointing and removing the internal audit directors.

Testing hypotheses related to objectivity of internal audit departments was conducted by splitting some of the demographic data on the objectivity scale.

Organisational status is considered as one of the factors affecting the independence and objectivity of internal auditing. However, the professional literature, (the Statement of Responsibilities, 2000; the Standards of Internal Auditing "Standard 1110", 2004 and Statement of Auditing Standards SAS 65, 1997) stressed that the importance of organisational status of the internal audit department should be sufficient in order to accomplish its audit responsibilities. Furthermore, the academic literature suggested that the employee's position within an organisation should be identified (Near and Miceli 1985) and organisational status will provide appropriate internal auditing coverage and authority (Braiotta and March 1992).

The survey results indicated that 65.7% (appendix 4.1) of the respondents accepted the organisational status of the internal auditors in Sudanese banks as adequate for the fulfilment of their jobs (sample mean=3.483, Table 6-9). In fact all of the banks investigated have an internal audit departments headed by a director. Furthermore, the results suggested that the respondents perceive that the internal auditing staff have freedom to carry out their work freely and objectively without any interference of the management of the bank. In other words, internal auditors in banks have the power to review all departments of the bank (sample mean= 3.728, Table 6-9). This result was in line with responses to statements No.13 and 14 that 76% and 76.3% respectively, (appendix 4.1) of internal auditing staff in Sudanese banks have free access to people, information and places and can carry out their work freely and objectively (sample mean=3.973 and 3.958 respectively, Table 6-8).

The second point addressed in the objectivity of internal audit departments was the reporting level of the department. It is suggested that the level to which the internal audit department reports can be an indicator of its independence and position within the organisational structure. The professional literature, for example SAS 65 (1991), highlighted the importance of the organisational independence of internal audit staff as it is essential factor for their objectivity. Previous studies (Clark et al 1981; Abdel-Khalil et al 1983 and Burnaby et al 1994) found that the level to which the internal audit department reports is a significant determinant of the departments' independence and objectivity. Ideally, the internal audit departments should report directly to the highest level within the organisation, in other words, the board of directors and the audit committee.

The survey results reflected that 69.9% (appendix4.1) of the surveyed internal and external auditors did not agree with the reporting level of internal audit departments in Sudanese banks (sample mean=2.391, Table 6-9). Although all of banks operating in Sudan maintain boards of directors, with the exception of three banks who have both board of directors and audit committees, all of internal audit departments report to the managing director of the bank rather than the bank's board of directors (Abdel-Khalil et al 1983 and Burnaby et al 1994). Studies in this area showed that internal auditors usually meet the board of directors 3-4 times a year to discuss the findings of their reports (for example Scarbourah et al 1998). In Sudanese banks, according to statement No 10 Table (6-9), 61.6% (appendix 4.1) of the respondents reported internal audit reports are discussed at the board once a year and more specifically at the end of the financial year (sample mean=2.539, Table 6-8).

One of the issues discussed by the Objectivity Scale was the involvement of the board of directors in the process of appointing and removing the director of internal audit departments. Western studies (for example Joseph and Raghunandan 1994 Raghunandan et al. 1998) indicated that involvement of audit committees in appointing and removing internal audit directors will strengthen their independence. In Sudanese banks, results indicated that 81.2% and 61.6% (appendix 4.1, respectively) of the surveyed internal and external auditors believed that the bank managing directors responsible for hiring and firing the internal audit directors and the board of directors are not involved in such decisions (statements 8 and 9, Table 6-8). However, it seems that this situation has a negative impact on the decisions of internal auditors and has weakened the independence of the internal audit directors

6.8.2 Hypotheses related to objectivity of internal audit departments:

The analysis of variance has been used to test the relationship between educational level, years of experience in the auditing profession, years of experience in internal auditing and the numbers of internal auditors in the internal audit department and evaluation of objectivity. The t-tests were used to examine the relationship between gender (male/female) and auditors' occupation (internal auditor/external auditor) and evaluation of objectivity.

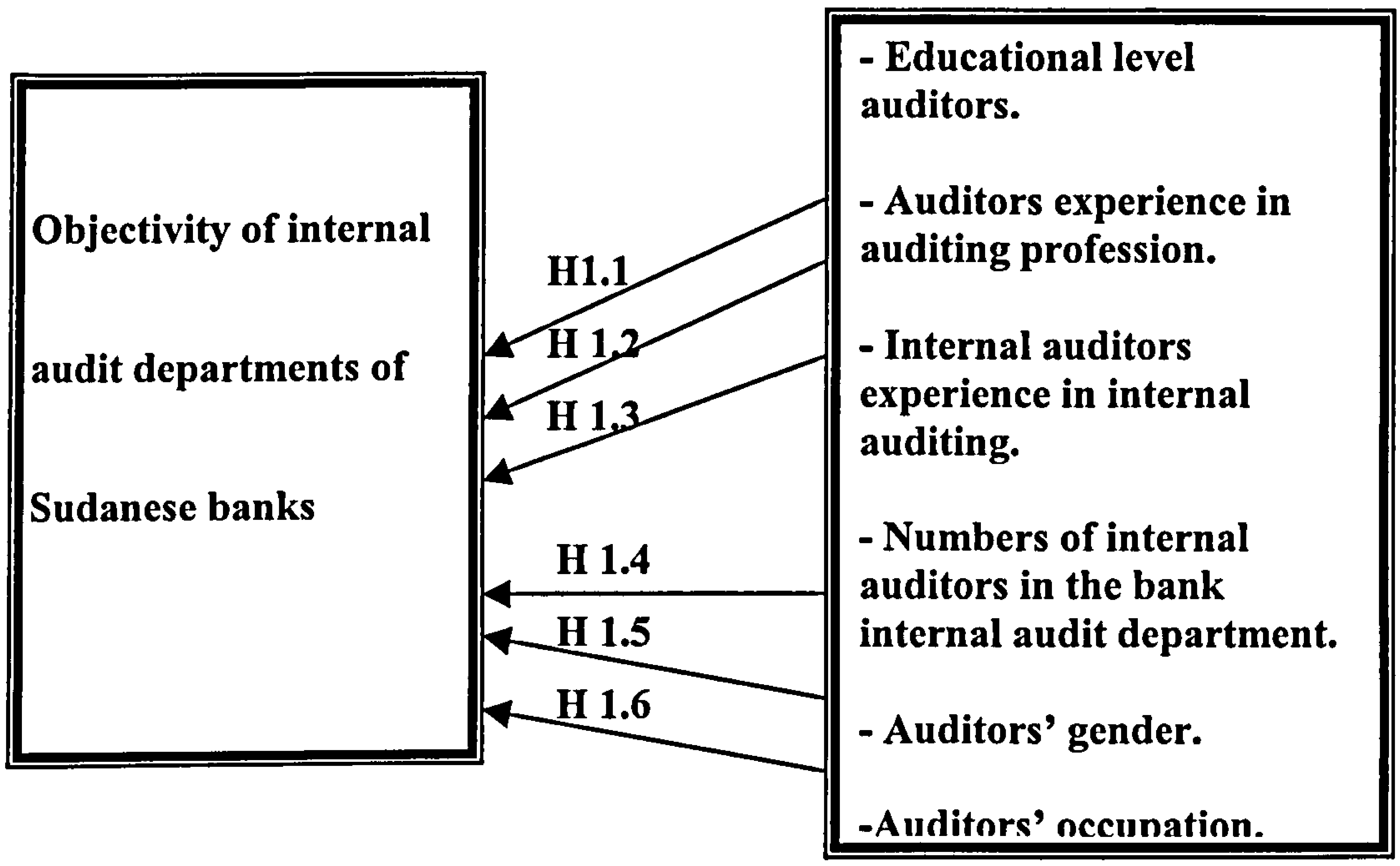


Figure 6.11 Objectivity hypotheses

Regarding the relationship between objectivity of internal audit departments and educational level of auditors (H 1.1), the analysis of variance supported no difference in the means (Table 6.10) ($p>0.05$). The literature however indicated that well-educated employees might be able to criticise and show more negative perceptions (Mathieu and Zajac 1990). Although the results indicated no significant difference, appendix 3.1 showed that qualified auditors' means were the lower means. Considering this result, it can be argued that qualified auditors in Sudan are usually members of professional bodies such as UK, USA and Sudanese Council of Certified Accountants. These bodies have strict Codes of Conduct and Ethics that require their members to comply with. The evaluation of objectivity given by external auditors with Professional Certificate- such as ACCA and CPA- was lower than evaluations given by other auditors with High School Diploma, First degree, Postgraduate Diploma and Masters Degrees (appendix3.1).

In a Saudi study, Al-Twaijry et al (2004) found that the educational level held by auditors has a significant effect on their evaluations objectivity ($p=001$).

For the relationship between objectivity of internal audit departments and experience of auditors in auditing profession (H 1.2), the analysis of variance (Table 6-11) indicated no support for the hypothesised relationship ($p> 0.05$). As can be seen from the Table 6-11, 12 statements showed non-significant values while only 2 statements showed significant differences, namely, management interference in internal auditing and the position of internal audit departments in the organisational structure of the bank. Peursem (2004) suggested that experienced auditors may have opportunities to rise to higher levels of authority within an organisation; furthermore, they may also have different views based on that experience. However, he did not find a relationship between the perceptions of experienced auditors and less experienced but experienced auditors may enjoy greater authority by virtue of their association with management. Although the study did not examine the effect of auditor's experience regarding the issue of objectivity itself, but it might be an indicator that reflects the effect of experience on auditors' views.

For the association between objectivity of internal auditors and years of experience in internal auditing (H 1.3), analysis of variance showed no significant difference between internal auditors' experience in internal auditing and their evaluation of objectivity in Sudanese banks (Table 6-12). This result indicated that the years of experience of internal auditors in the internal auditing profession is not involved in their evaluation of objectivity of internal audit ($p > 0.05$). There are no references to previous research investigations regarding this relationship, as researches have not considered the direct effect of internal auditors' experience on their evaluation of objectivity. However, research studies in the area of objectivity have focused on organisational independence of internal auditors and the relationship with audit committees (Goodwin and Yeo 2001) and beliefs of internal auditors regarding the disclosures of fraud to members inside the organisation or to the public at large using objectivity determinates as a measurement (Ponemon 1991). Although the professional literature highlighted the importance of objectivity for internal auditors, for example, the new definition of internal auditing stressed the objectivity of internal auditors in their performance of consulting activities (IIA, 2000). Furthermore, the IIA Code of Ethics states that internal auditors must make a balanced assessment of all the relevant circumstances and that they are not to be unduly influenced by their own interest or by others in forming their judgement (IIA, 2000) but the study result did not reflect any significant relationship between experience of internal auditors and their evaluation of objectivity.

The fourth hypothesis aimed to test the relationship between the evaluation of objectivity of internal audit departments in Sudanese banks according to the numbers of internal auditors working in the internal audit department (H 1.4), (Table 6-13). The analysis of variance revealed no significant statistical difference between the numbers of internal auditors in the internal audit department and their evaluation of objectivity of their departments ($p > 0.05$). Although the results indicated no significant relationship, the general trend that the large departments (more than 15 internal auditors working in the department) evaluated their objectivity less than small departments, in other words, the lowest sample means were provided by internal audit departments with more than 15 internal auditors (appendix 3.4).

Regarding this result, only three banks of the sample have more than 15 internal auditors with more than 50 branches for each bank. Two of these banks reported big fraud cases namely bank of Khartoum and Agricultural Bank of Sudan (Alray Alaam Newspaper 2005 and Alsudani Newspaper 2006) respectively. Both internal and external auditors blame these fraud incidents on poor internal audit coverage and the small number of internal auditors compared to the number of branches covered by their departments (appendix 5.3 interviews and statement no 2, appendix 4.3 respectively).

The fifth hypothesis tested the relationship between the objectivity of internal audit departments and the auditors' gender (H1.5). The overall mean score for males was (2.984) while the overall mean for females was (2.698); however, both groups indicated some disagreement with the objectivity of internal audit departments in Sudanese banks. The results indicated that there was a significant difference between the views of males and females. Females evaluated objectivity of internal audit departments less than males and the difference in evaluation was significant (5.518) (see figure 6.2, Section 6.7.1.1). To the researchers' knowledge, no previous studies have examined the relationship between gender and their evaluation of objectivity of internal audit departments. Research findings in cognitive psychology and marketing research indicated that gender might be an individual-level factor that influences performance in evaluation tasks. Chung and Monroe (2001:112) stated "the literature suggested that females may be more accurate and effective information processors in complex decision tasks than males because of female supervisor's ability to differentiate between and integrate decision cues. Males have been shown to analyse information in less depth relative to females by using fewer decision cues". In addition, O'Donnell and Johnson (1999) found that when financial statements balances were consistent with information about client business activity, females provided more processing effort by analysing decision cues in more depth than male auditors did. Based on the study result, results of males and females evaluations of objectivity of internal audit departments are in line with the Chung and Monroe (2001) and O'Donnell and Johnson (1999) that females auditors are more accurate in their evaluation of objectivity, as in general the objectivity of internal audit departments of Sudanese banks is considered to be not effective.

The last hypothesis (H1.6) aimed to test the relationship between objectivity of internal audit department and auditors' occupation (internal/external auditors). For this study, this relationship was very important because it tended to measure the views of internal auditors according to their positions within their banks as bank internal auditors and external auditors as they responsible or bank external audits. Therefore, this relationship is considered to be one of the main objectives of the study.

The professional literature stressed the objectivity of the internal audit profession (IIA Code of Ethics, 2000:2) and the need for professional objectivity when internal auditors evaluate the adequacy of their firms' internal control systems (AICPA 1997, AU 322.03 and the Panel of Audit Effectiveness 2000:62). The academic literature also highlighted the importance of objectivity for internal auditors for example (Driessen and Molenkamp 1993; Bazerman et al 1997 and Vinten 1999).

The overall mean scores for internal auditors (2.982) and for external auditors (2.499), this result indicated that both of the groups were not completely satisfied with internal auditing objectivity in banks. The result of t-test indicated that there was a significant difference between internal and external auditors' perceptions of overall evaluation of objectivity of internal audit departments in Sudanese banks (figure 6.6, Section 6.7.2.1). However, the result showed that internal auditors perceived themselves more objective than external auditors in their evaluation of objectivity as they evaluated objectivity higher than external auditors. This result is consistent with Haimon (1998) who found that the respondents from internal auditing units have a higher evaluation of independence than other respondent groups have. In another study Ward and Robertson (1980) conducted a study on the external auditors' reliance on internal auditors' work. Their survey result showed that 90 % of the internal auditor respondents consider their departments to be independent and objective. Likewise, 90% of the independent auditors reported that they review internal auditors' competence and objectivity and consider themselves qualified to do so.

6.8.3 Competence of internal audit departments in Sudanese banks:

Regarding competence of internal audit departments, part two of section two of the study questionnaire has examined the competence of internal audit departments of Sudanese banks. Competence was addressed by educational background, experience, training and qualifications of internal auditing staff, however, all these variables had been found by prior research to be important for evaluating internal audit competence (For example, see Messier and Schneider 1988, Tiessen and Colson 1990, Maletta 1992 and Krishnamoorthy 2002). The professional literature suggested that the competence of the internal audit department is dependent on a company and its internal audit department's operations, processes and procedures, and the quality and quantity of supervision available in the internal audit department (SAS 65, 1997, p. AU 322). However, a descriptive discussion for the competence scale will be conducted, followed by the test of hypotheses related to competence of internal audit departments by splitting some of the demographic variables on the competence scale. Table (6-14) reported the results of means test for the competence scale; the overall mean score (2.769) revealed that the respondents were between neutral and dissatisfied with the competence of internal audit departments.

As mentioned above internal auditors' educational background and qualifications is one of the most important factors that affect the competence of internal auditors. Therefore, the auditing professional literature stressed the importance of competence, for example the Professional Internal Auditing Standards (2004), (Proficiency Standards) discussed issues such as staffing, knowledge and skills of internal audit staff. In the USA, SAS 65 (1997) highlighted the importance of competence for internal auditing staff in the light of their educational background and qualifications. The academic literature suggested that competence of internal auditors should be one of the top priorities of an organisation (Engle 1999). Furthermore, other researches investigated the benefits of Certified Internal Auditors for their organisations' competence in terms of education and training (for example, see Agrawal and Siegel 1989 and Myers and Gramling 1997). The study results indicated that 86.1% (appendix 4.2) of internal and external auditors were not satisfied with the banks internal audit staff certification programmes (mean=1.790, Table 6-14) as well as 88.2% (appendix 4.2) of them agreed that there is no one qualified internal auditor working in internal audit departments of Sudanese banks (sample mean=1.741, Table 6-14). Most notably, in Sudan there is no specific body that provides certification programs in internal auditing (appendix 5.2.1). However, a few certified internal auditors obtained their degrees from the UK and USA in the 1960s and 1970s (appendix 5.2.2). Furthermore, 74.2% (appendix 4.2) of respondents did not agree over the basic qualifications of internal auditors working as banks' internal auditors (sample mean=2.105, Table 6-14). Results showed that 52.6% (Table 6-3) of internal auditors working in Sudanese banks have first university degrees, nevertheless, this percentage was considered to be a high percentage in a developing country like Sudan, but working as internal auditors especially in complex business environments require internal auditors to be more qualified and specialised.

The second issue addressed by the competence scale was the training of internal audit staff in Sudanese banks. The Basel Committee on Banking Supervision (2000) emphasised the need for continuing training for internal audit staff. Johnson (1991) and Pickett (2000) highlighted the importance of training for internal auditors and stressed on the in-house training, as it is the lowest in the cost of training. The study results reflected that, firstly, 44.8% (appendix 4.2) of the respondents did not identify any encouragement of management regarding internal audit staff continuous development in the area of auditing and internal auditing specially in external training (sample mean=2.769, Table 6-14). Secondly, 52.5% (appendix 4.2) of participants indicated that banks internal auditors are subject to in-house training but with a focus on non-internal audit training courses (sample mean=2.546, Table 6-14). Although the external auditors in Sudan have established the Sudanese Council of Certified Accountants since 1988, there is no specific body for internal auditing that provides training for Sudanese internal auditors as the process of training of internal auditors needs well-established specialised institutions to carry out this type of training.

The third issue addressed by the competence scale was the experience of internal audit staff. Very little research addressed the issue of internal auditors' experience, however, in the area of auditing Abdolmohammadi and Wright (1987) studied the effects of experience on decision-making process by examining experienced/ inexperienced staff. Results showed only limited significant experience effects. The competence means results (Table, 6-14) indicated that the respondents were not satisfied with the level of experience of internal auditors in auditing profession in Sudanese banks (sample mean=2.629) representing 53.2% (appendix 4.2) of respondents did not agree with the level of experience. In relation to experience of internal auditing staff in internal audit profession, mean results revealed that participants did not completely disagree with the experience of internal audit staff in internal auditing (sample mean=2.727). The percentage indicated that 46.9% (appendix 4.2) disagree with the experience of internal auditors working in Sudanese banks. Furthermore, results indicated that 48% (appendix 4.2) of the respondents reported that bank' managements appoint inexperienced and incompetent internal auditors in Sudanese banks (sample mean= 2.706). This result was in line with Brierley et al's (2001) argument that internal audit departments in Sudanese public sector organisations are staffed with inexperienced internal auditors.

The turnover of internal audit staff in Sudanese banks is very high, (Table, 6-6) showed that 73.2% of internal auditors stay less than 5 years.

6.8.4 Hypotheses related to competence of internal audit departments:

The analysis of variance has been used to test the relationship between educational level, years of experience in auditing profession, years of experience in internal auditing and the numbers of internal auditors in the internal audit department and evaluation of competence of internal audit departments in Sudanese banks. The t-tests were used to examine the relationship between gender (male/female) and auditors' occupation (internal auditor/external auditor) and evaluation of competence

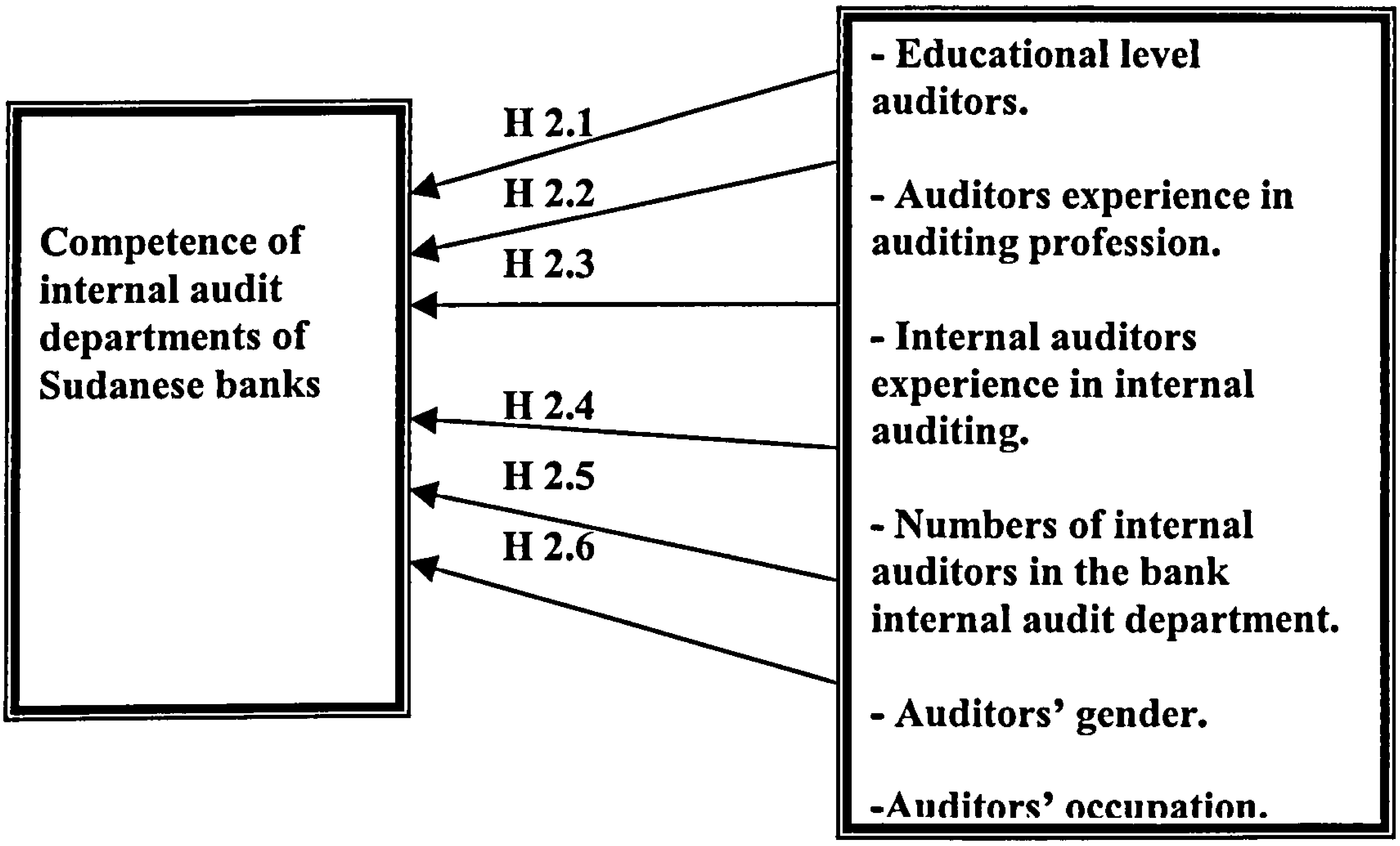


Figure 6.12 Competence hypotheses.

Regarding the relationship between the evaluation of competence and the educational level of auditors (H2.1). The analysis of variance provided no support for the hypothesised relationship (Table 6-15) (p>0.05). It was expected that well-educated auditors, especially qualified auditors and auditors with academic qualifications have more strict views regarding the competence than less-educated auditors. However, the majority of means indicated dissatisfaction with the competence of internal audit departments irrespective to the educational level of the respondents, (see appendix 3.5). No previous research has investigated the relationship between the educational level of auditors and their evaluation of competence. However, there were some studies investigated the issue of competency in the accounting profession, for example Siegel and Sorensen (1994) and the Institute of Internal Auditors study that investigated the competency framework for internal auditors (1999). Other studies regarding reliance decisions on the work of internal auditors by external auditors considered competence as the most important factor for using the work of internal auditors (Schneider 1985, Margheim 1986 and Messier and Schneider 1988).

The analysis of variance (Table 6-16) indicated no support for the hypothesised relationship between the evaluation of competence and the years of experience in auditing profession (H2.2) (p>0.05). No previous studies have investigated the direct relationship between auditors' experience and competence. Some studies investigated the relationship between experience and evaluation of internal control, Ashton and Brown (1980) found no differences between experienced and inexperienced auditors in consensus on internal control evaluation. Hamilton and Wright (1982) found a negative correlation between auditors' years of experience and consensus on internal controls. Some studies examined the impact of irrelevant information on the going-concern judgements of less-experienced auditors compared to more-experienced auditors. The study found that irrelevant information does have a diluting effect on the judgements of audit effect by less-experienced auditors but the study revealed that irrelevant information does not have a diluting effect on the judgements of more-experienced auditors (Shelton 1999). In general, experience of auditors has no significant effect on auditors' judgements. In some way, Shelton's (1999) findings are consistent with the study findings that auditors' experience has no effect on the evaluation of competence. Al-Twaijry et al (2004) found significant difference regarding the level of relevant experience of internal audit staff and their knowledge that has a direct effect on the competence of internal audit departments in Saudi corporations. In this study, participants (internal and external auditors) agreed that the experience status of internal auditors was not reasonable.

Regarding the relationship between the evaluation of competence of internal audit departments in Sudanese banks and experience of internal audit staff (H 2.3). The analysis of variance provided no support for the hypothesised relationship (Table 6-17) ($p>0.05$). Although 28.8% of internal auditors have experience of working as bank internal auditors more than 6 years (see Table 6-6) but the experience factor does not play any role in their evaluation of competence of internal audit departments. There is no reference to previous investigations for the same relationship; however, Brody and Lowe (2000) have used the years of experience of internal auditors in examining whether the internal auditors' judgements are dependent on their company's role (buyer or seller) in an acquisition. In other study Haron et al (2004) studied whether internal auditing staff are closely supervised and their work adequately reviewed by more experienced staff, they found no significant relationship ($p=0.135$), however, these two studies did not investigate the direct relationship between experience of internal auditors and evaluation of competence, although the experience variable was used in both of them. In a turn, Al-Twaijry et al (2004) found a significant difference between the internal auditors knowledge and experience in running their work effectively (p=0.001) indicating that there are doubts about expertise and overall effectiveness of internal audit function in Saudi Corporations. This result is consistent with the study result in terms of the doubts surrounding the experience of internal auditors in Sudanese banks.

It was expected that the experienced internal auditors in Sudanese banks might have different views about their evaluations of competence of internal audit function. Results of other studies showed that more experienced auditor had more knowledge and ability to judge (for example see, Bonner and Lewis 1990). On the contrary, the results of the current study suggested that all internal auditors (experienced and inexperienced) have no differences in their views regarding competence as experienced/inexperienced auditors' evaluated competence as very low (see appendix 3.7).

The purpose of the fourth hypothesis (H2.4) in competence section was to test the relationship between competence of internal audit departments in Sudanese banks and the numbers of internal auditors working in the internal audit departments (Table, 6-18). Analysis of variance reflected no significant statistical difference ($p>0.05$). Although the relationship indicated no significant difference, Table 6-18 showed that the large departments scored the lowest means. Accordingly, it seems that internal audit departments staffed with more than 15 internal auditors have negative views towards the issue of competence than the other groups in the measurement.

It can be argued that large internal audit departments face a problem of competence that the numbers of internal auditors working in the internal audit departments is not enough to cover the banks' branches properly.

Hypothesis (H2.5) tested the relationship between auditors' gender and their evaluation of competence. Regarding the overall means of the two groups, males score was (2.755) and the females' score was (2.582) indicating that both of the groups were not completely satisfied with the competence of internal audit departments in Sudanese banks. To test this hypothesis, t-test was used (Section 6.7.1.2). The results indicated that there was a significant difference between the views of males and females regarding the issue of competence.

As the same as in objectivity scale, Females evaluated competence of internal audit departments less than males and the difference was significant (4.838) see figure 6.3, Section (6.7.1.2). To the researchers' knowledge, no specific studies have examined the relationship between the gender and evaluation of competence of internal auditors. However, in the area of accounting, Radtke (2000) examined 51 practising accountants from public and private industry regarding the ethical responses to personal versus business dilemmas according to their gender. The study did not find significant statistical differences regarding the gender response. Although the current study investigated the gender issue from a different point of view (evaluation of competence of internal audit departments in Sudanese banks), but looking at the results of other studies based on gender evaluations might be an indicator for respondents' responses. Furthermore, studies of professional accountants showed that female accountants have significantly higher levels of moral reasoning than male accountants (for examples see Etherington and Schulting 1995; Jones and Hiltebeitel 1995). Results of these two studies are consistent with the general study results that females evaluated the competence lower than the males. In Sudan, although the numbers of females working in the field of auditing are few compared to males (34 females and 109 males participated in this study, Table 6-2) their evaluation of competence seems to be more accurate as they evaluated competence of internal audit departments lower than males did. Their evaluation of competence is consistent with the findings of Brierley et al (2001) who found the competence of Sudanese internal audit departments in public sector organisations incompetent in terms of training, experience and qualifications.

The last the hypothesis (H2.6) in competence was to test the relationship between the auditors' occupation and evaluation of competence of internal audit departments in Sudanese banks. As mentioned earlier, the views of internal and external auditors regarding the study variables were very important for the study, simply, because the sample of the study was a combination of internal and external auditors. The professional literature highlighted the need for competent internal auditors, for example, SAS 65 (1997) requires the competence of internal audit departments for its operations, procedures and the quality and quantity of supervision available in the internal audit department. Furthermore, the Internal Auditing Standards highlighted the professional proficiency of internal auditors (IIA 2004).

The academic literature discussed the internal auditing competence from different angles, for example the Basel Committee Survey (2001) considered training of internal auditors as an essential factor for competence of internal auditing in addition to the rotation of internal auditors within the department. Furthermore, some researches investigated the benefits of Certification Programmes of internal auditing (Myers and Gramling 1997 & Agrawal and Siegel 1989). Moreover, Stearn and Impey (1990) discussed competence from the point view of qualifications of internal auditing staff. Additionally, Johnson (1991) identified the types of training that internal auditors can benefit from and Pickett (2000) suggested training strategies for the internal auditors (for more details, see chapter 2, section 2.3.2).

The overall mean score for internal auditors was (2.862) and for external auditors was (2.477). It is noteworthy that this result suggested that the two groups representing the population were not satisfied enough with the competence of internal auditing in Sudanese banks. The result of the t-test indicated that there was a significant difference between internal and external auditors in perceptions of overall evaluation of competence of internal audit departments (figure 6.7, Section 6.7.2.2). Although the competence scale overall mean score reflected that respondents were not highly satisfied with the competence of internal audit departments of Sudanese banks (Table 6-14), the results showed that internal auditors evaluated the competence of internal audit department higher than external auditors. This result is not consistent with Haimon (1998) who found no significant difference between councillors and other audittee groups' -including internal auditors- regarding the competence of the municipality internal auditing units in Israel although councillors provided the lowest means in their evaluations.

6.8.5 Work performance of internal audit departments in Sudanese banks:

In relation to work performance and monitoring of internal controls conducted by internal audit departments in Sudanese banks, part three of section two of the study questionnaire has examined this issue by presenting some points highlighted the work performance and monitoring of internal controls. The first point addressed was the internal audit programmes and their quality. The second point discussed was the ability of internal auditors in banks to cover the banks' branches and departments. The third issue was the role of internal auditors in banks in monitoring the internal controls. However, all these issues had been found by prior research to be important for evaluating internal auditor work performance (For example, see Margheim 1986; Tiessen and Colson 1990; Maletta 1992; Krishnamoorthy 2002, and Al-Twaijry et al 2004). The Public Company Accounting Oversight Board (PCAOB) (2004) contends that the flexibility that external auditors have in using the work of internal auditing function should encourage companies to develop an effective internal audit function and therefore, external auditors could rely on the work performance of internal auditors.

Regarding the professional literature, Section 322 of SAS 65, The British Standard 500 and the International Standards of Auditing ISA (610) "considering the work of internal auditors" stressed the importance of internal auditors work performance and encourages external auditors to rely on it. Some research papers highlighted the importance of the internal audit charter as a document explaining the duties, authority and responsibility in addition to explaining the work of internal auditors (Johnson 1986, Burnaby et al 1994, Zhang 1999, Peursem 2004).

For the purpose of the discussion for the three issues mentioned above, mean values and respondents' percentages of their attitudes and views were used. Furthermore, the test of hypotheses related to work performance and monitoring of internal controls of internal audit departments will be conducted by splitting the relevant demographic variables by the work performance scale.

Table (6-19) reflected the results of means test for work performance scale, the overall mean score (3.577) revealed that the respondents were between neutral and satisfied with the work performance of internal audit departments in Sudanese banks. With exception of one statement –Statement No. 2, the number of internal auditors compared to the number of branches- all of the statements in the scale were above the neutral point, i.e. respondents showed some agreement with work performance and monitoring of internal controls function.

Regarding the first issue, internal audit programmes performed by internal auditors and their quality, 4 statements tested this dimension. For the first statement (no.3, Table 6-19), 77.4% (appendix 4.3) of the respondents agreed that there are clear internal audit schedules for auditing banks' branches and departments (sample mean=3.755, Table 6-19). This result indicated that the internal audit departments are maintaining audit schedules to audit the departments of the bank and other branches. Furthermore, the directors of internal audit departments in most of banks prepare their internal audit plans at the beginning of a financial year with the participation of the internal audit staff in the bank. The second statement (No 5, Table 6-19) indicated that 75.5% (appendix 3.3) of the respondents were satisfied with the role of internal auditors in banks to examine the reliability and integrity of information. These results supported by high sample mean score for the statement 3.867 (Table 6-19). The third statement No 9 (Table 6-19) showed that 72.7% of the respondents supported the statement that indicated that corrective actions on the findings of internal auditors are satisfactory; the sample mean score for this statement was 3.741 (Table 6-19). Regarding directors of internal audit departments reviewing the quality of working papers, the respondents agreed that the director of the department is usually checking the working papers on a regular basis to ensure its quality, however, this statement revealed a satisfactory sample mean score (3.469, Table 6-19).

The second point addressed was how effective are internal auditors in banks in covering the banks' branches and departments. Statement No 2 (Table 6-19) examined whether the numbers of internal auditors in Sudanese banks were sufficient for the numbers of branches covered by their departments or not. Results revealed that 63% (appendix 4.3) of the surveyed auditors agreed that the numbers of internal auditors is not sufficient when compared to the numbers of departments and the number of branches (sample mean= 2.546, Table 6-19). More specifically, internal auditors explained that their numbers were not sufficient when compared to the numbers of transactions they audit and the number of branches they audit. However, according to the shortage of numbers of internal auditors and the previous civil war in Southern States and some other parts, internal audit teams had not audited some branches for years (Aweel Branch, Alray Alaam 2005:1). However, the General Auditor Report on 30/08/2005 reflected 3 fraud cases in 3 different banks that equivalent to £ 932,500 "Sterling pounds". The report referred these cases to the weaknesses in internal controls and audit coverage in these banks (Sudani Newsletter, 24/05/2006, no. 197). This result was in line with Brierley et al (2001) who found that internal audit departments of public sector organisations suffer from poor audit coverage due to shortage of internal auditing staff. Itinerant teams are very expensive in terms of transportation and expenses for allowances for work conducted outside the main departments and lead to delays in auditing branches that lead to fraud and embezzlement. From the researchers' point of view, large branches should be audited more than once year and snap check should be conducted regularly for small branches. Statement No1 highlighted the role of directors of internal auditing in supervising their staff through well-defined system of responsibilities. However, 81.1% (appendix 4.3), (sample mean= 4.000, Table 6-19) of the respondents indicated that banks in Sudan maintain well-defined system of responsibilities within the internal audit departments. According to this result, it seems that the internal audit departments in the banks are well supervised and the directors of internal audit departments have the power to supervise and control their staff and furthermore, the internal audit departments at Sudanese banks keep three levels of internal auditors, namely, directors of internal audit departments, managers and auditors. This result is consistent with the general themes of interviews and previous literature, for example (the Basel Committee 2002 and Ratliff et al 1988, Chapter 2, Section 2.3.1.3).

The third issue explained by the scale was the role of internal auditors in monitoring the internal control system in Sudanese banks. In the area of internal controls, the majority of respondents, percentage ranged from 60.8% to 79.1% (appendix 4.3) agreed with the statements 12, 13, 14, 15, 17,18 and 19, with sample mean values (3.622, 3.734, 3.643, 3.692, 3.629, 3.469, 4.021) respectively (Table 6-19). The respondents considered the role of internal auditors in monitoring the internal controls in Sudanese banks was reasonable compared with objectivity, competence. In general, respondents viewed that the internal audit departments have the creditability to evaluate the adequacy of the internal control system and to ensure that the financial controls are implemented properly. The interview results suggested, in Sudanese business environment, the main role of internal auditors is the financial audits and monitoring of internal controls.

Regarding risk management, 61.6% (appendix 4.3) agreed with the statement No 6, (sample mean=3.867, Table 6-19) suggested that the internal auditors examine the adequacy of the risk management procedures. While 52.2% (appendix 4.3) -with a sample mean value (3.336, Table 6-19)- of the respondents agreed that the internal audit departments regularly evaluate the risk management procedures. However, from the researcher's point of view, due to lack of training and lack of knowledge of internal auditors of new trends of internal auditing including risk management procedures, most of the employees in the internal audit departments are not aware of the role of the internal auditors regarding risk management.

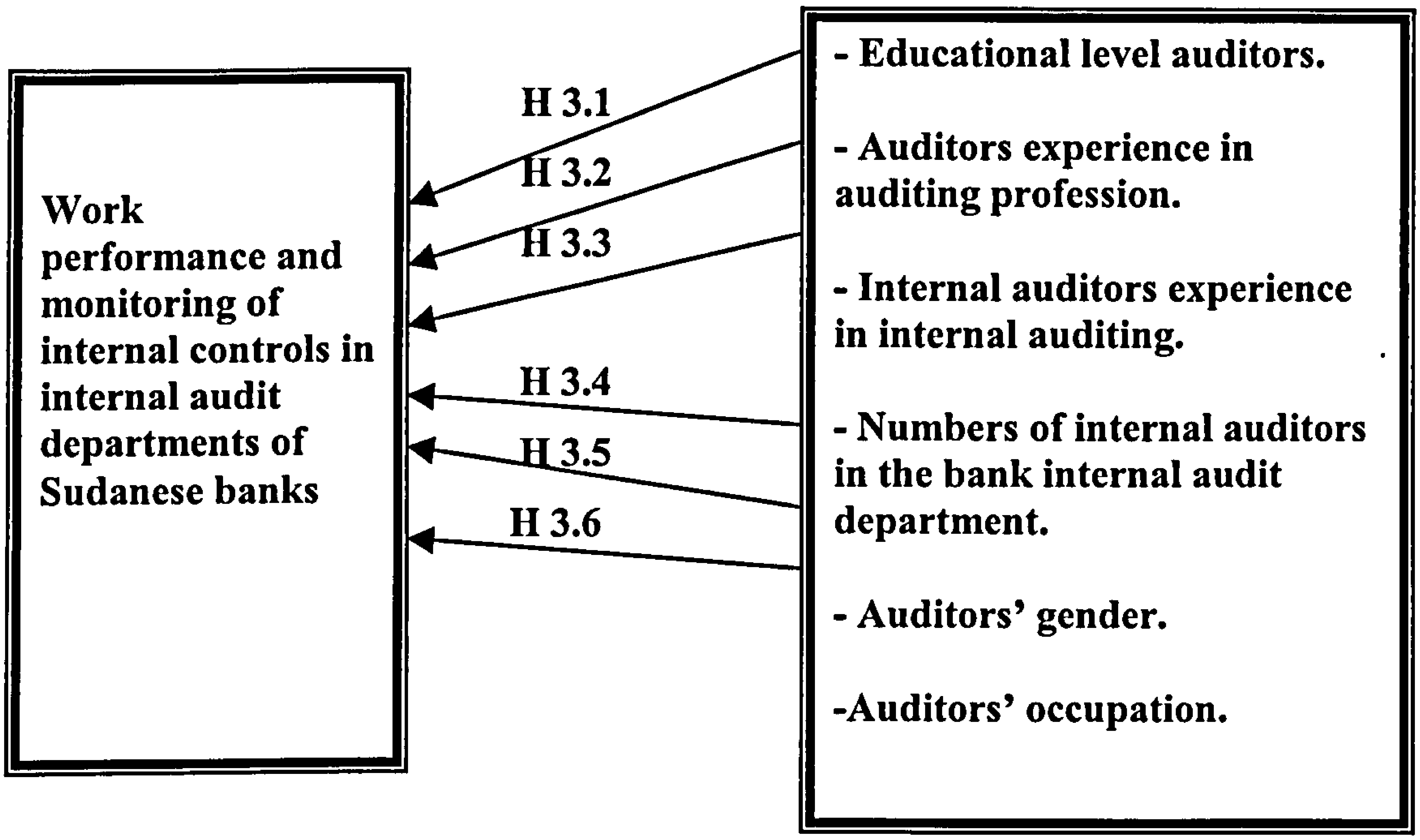


Figure 6.13 Work performance and monitoring of internal controls hypotheses.

6.8.6 Hypotheses related to work performance and monitoring of internal controls of internal audit departments in Sudanese banks:

The analysis of variance has been used to test the relationship between educational level, years of experience in auditing profession, years of experience in internal auditing and the numbers of internal auditors in the internal audit department and evaluation of work performance and monitoring the internal controls by internal audit departments in Sudanese banks. T-tests were used to examine the relationship between gender (male/female) and auditors' occupation (internal auditor/external auditor) and evaluation of work performance and monitoring of internal controls.

Regarding the relationship between evaluation of work performance of internal audit departments and the education level of respondents (H 3.1), the analysis of variance revealed a significant statistical difference between the two variables ($p< 0.05$). According to this result, (appendix, 3.9) showed that, the lowest means are provided by well-educated auditors, particularly qualified auditors and auditors with academic qualifications (Masters and PhD). It is suggested that the professional bodies that qualified auditors belonging to impose strict codes of conduct on their members that they should comply with, therefore, their evaluations seems to be more restrict. Less-educated auditors revealed the highest means as they evaluated the work performance higher than well-educated auditors. In general, well-educated employees "... have a great number of job options and are less likely to become entrenched in any one position or company" (Mathieu and Zajac, 1990, p. 177). Similarly, in case of well-educated auditors they found themselves in stronger positions than less-educated auditors in terms of responsibility and authority. Therefore, they will be more able to express their opinions clearly and criticise other work more objectively without any threat of losing their jobs.

To the researchers' knowledge, this relationship has not been investigated by the previous literature. However, the management literature related the educational level to other variables in many studies. For example, Tang and Baldwin (1996) who investigated the educational level related to administration of justice. Other studies investigated the educational level and organisational commitment, for example (Abdulla and Shaw, 1999; Awamleh, 1996 and Bhuian et al 1996) however; these studies did not indicate significant relationships between the variables.

Although there was a significant difference between the views of respondents but their evaluation of work performance of internal audit departments in Sudanese banks was reasonable in terms of mean values and the scale overall mean (Table, 6-19). For the current study, the main implication for this result is that the difference in views between well-educated and less-educated auditors may lead for future conflicts between internal auditors in Sudanese banks and external auditors responsible for banks audit that can heavily affect the relationship between the two groups and threatens the general business environment.

The second hypothesis (H 3.2) tested the relationship between work performance and monitoring of internal controls and auditors' -internal and external- experience in auditing profession. The analysis of variance revealed a significant relationship between the two variables ($p< 0.05$). This result reflected that auditors with longer experience tended to evaluate work performance and monitoring of internal controls more negatively than less experienced auditors, more specifically, auditors with experience 10-20 years in the field of auditing tended to perceive work performance and monitoring of internal controls in Sudanese banks more negatively than auditors with experience less than 10 years (appendix, 3.10). Since experience is related to age, employees with longer experience expected to show more positive perceptions than inexperienced employees (Suliman 2000, p. 293). Previous studies in management have suggested that job tenure and experience is related to work performance (McNeilly & Russ, 1992 and Schmidt & Reader, 1999). This was supported by the present study, which found the experience of auditors is a significant factor in their evaluation of work performance of internal audit departments. Therefore, due to the length of experience of auditors, they can understand their duties.

As the evaluation of internal controls is a part of internal audit departments' work, with the exception of one statement, all of the statements in the scale that measures evaluation of the internal controls, indicated significant relationships between evaluation of internal controls and experience of auditors (statements 12,13,14,15,17,18,19, appendix 3.10). This result is not consistent with the findings of Hamilton and Wright (1982) who found a negative correlation between auditors' experience and evaluation of the internal controls. Furthermore, this result was not in line with the findings of Ashton and Brown (1980) in relation to the differences between experienced and inexperienced auditors.

Hypothesis (H 3.3) tested the relationship between work performance and monitoring of internal controls in Sudanese banks and years of experience of internal auditing staff. The analysis of variance indicated no statistically significant differences ($p > 0.05$). All of the variables in the scale indicated non-significant results (appendix, 3.11). This result was in line with other research, for example Haimon (1998) and Wright and Bangranoff (1995) who evaluated the effectiveness of internal auditing-in terms of different factors, including work performance- between the internal auditors and other groups, however, they did not find significant differences.

This finding was not consistent with Al-Twaijry et al (2004) who found a significant difference between the internal auditors' knowledge and experience, in Saudi corporation sector, in running their work effectively.

Although the result indicated no significant difference, it was expected that the experienced internal auditors in Sudanese banks might have different views regarding their evaluations of work performance of the internal audit function according to their long experience in the field of internal auditing in banks and their expected knowledge to criticise the weaknesses of the work of their departments. In fact, they evaluated work performance of their departments higher than other groups. As this part of questionnaire was completed by internal auditors, it seems that experienced internal auditors in banks tended to show more satisfaction with their jobs in banks. Al-Meer 1989 and Mathieu and Zajac 1990 indicated that experienced employees sometimes gain high positions in their organisations and get other benefits from their jobs in addition to the high social status.

Hypothesis (H 3.4) tested the relationship between the evaluation of work performance and monitoring of internal controls and the numbers of internal auditing staff at Sudanese banks. The analysis of variance did not reveal a significant relationship ($p > 0.05$). All of the variables in the scale showed non-significant values (Table 6-23) and all of scales' means were between neutral and satisfaction. This result could be an indicator that most of the respondents were satisfied with the work performance of internal audit departments and therefore responses of the four groups showed their satisfaction with the scales' variables. This result was consistent with the interview results that the majority of interviewees (7/8) were satisfied with the general work performance and monitoring of internal controls in Sudanese banks in terms of audit coverage and monitoring of internal controls (appendix 5.3).

Hypothesis (H 3.5) tested the relationship between gender and their evaluation of work performance and monitoring of internal controls of internal audit departments in Sudanese banks. The overall mean score for males was (3.647) and for females was (3.345) showing that both of the groups were satisfied with the work performance and monitoring of internal controls of Sudanese banks. Compared to their results in objectivity and competence, females overall mean score was less than males' overall mean score.

To test this hypothesis, the t-test was used (Section 6.7.1.3, Figure 6.4). The result indicated that there was a significant difference between the views of male and female. In general, the result revealed that male auditors tended to evaluate the overall work performance and monitoring of internal controls in the Sudanese banks more highly than females. In accounting and auditing literature, to the researchers' knowledge, in auditing no study examined the relationship between respondents' gender and evaluation of work performance. However, in management, according to Suliman (2000) in the Arabic context, males tend to overestimate their performance, however, Sudan as an Afro/Arab country affected by both cultures therefore, female employees tend to respect the cultural norms that describe the decent woman as the one that is humble, simple, modest and always wanting to be under the shadow of a man. Furthermore, males by nature, and more specifically in Arab countries, believe that their performance is better than females and females tend to accept and, in most situations, support this belief (Suliman, 2000).

The study result was consistent with Brauch (1996) who investigated the relationship between gender and self-performance rating. His study indicated a significant relationship between males and females. Male employees rated their performance more positive than female. Likewise, Makiney and Levy (1998) and Slocombe and Dougherty (1998) investigated the same relationship and they found that males rated their performance higher than females.

The last hypothesis (H 3.6) examined the relationship between the auditors' occupation (internal and external auditors) and their evaluation of work performance of internal audit departments. The professional literature emphasised the importance of Performance Standards (managing internal audit activity, nature of work, engagement planning, performing the engagement, communicating results and monitoring progress (for more details, see section 2.3.3 Chapter 2). Furthermore, Basel recommendations (2000) recommendation stressed the importance of work performance of internal auditors.

Regarding the overall mean for work performance and monitoring of internal controls of internal audit departments, internal auditors scored (3.845) while external auditors scored (3.007) indicating that the internal auditors evaluated their performance higher than the external auditors. The result of the t-test indicated that there was a significant difference between internal and external auditors' perceptions, (figure 6.4 section 6.7.1.3). Most notably, the two groups' evaluation regarding the work performance of internal audit departments revealed their satisfaction with the work conducted by the internal audit departments of Sudanese banks.

In keeping with the first two hypotheses of auditors' occupation and their relationship with objectivity and competence, internal auditors in Sudanese banks showed higher evaluation in the three factors than external auditors who are responsible for bank audits. These results were in line with other research, for example Haimon (1998) and Wright and Bangranoff (1995) who evaluated and compared the effectiveness of internal auditing between the internal auditors and other groups by taking the same factors, and found the internal auditors' evaluations to be higher.

6.8.7 External auditors' reliance decision on the work of internal auditors:

The issue of external auditors reliance on the work of internal auditors has been addressed by the professional literature, for example, SAS 500 in the UK, SAS 65 in the USA and International Standards Auditing section 260 (ISA 610). Likewise, a number of studies have been conducted on the decision to use the work of internal auditors by external auditors. Quoting Maletta (1993) "Prior research has generally indicated that the three internal audit variables identified in the professional standards- objectivity, competence and work performance- significantly affect auditors' internal audit reliance judgements". The majority of these studies have examined external auditors' general evaluations of the internal audit quality and their decisions to rely on the prior work of internal auditor considering the variables identified by the professional literature (for example, Gibbs and Schroeder 1980, Abdel-Khalil et al. 1983, Brown 1983, Schneider 1984, 1985, Margheim 1986, Messier and Schneider 1988, Edge and Farley 1991, Krishnamoorthy 2002, Haron et al 2004, and Al-Twaijry et al 2004). Other studies have addressed auditor's decisions to use internal auditors as assistants in conducting the internal audit (for example, Ward and Johnson 1980, Wagonor and Ricket 1989, Maletta 1993, and Haron 1996). Few studies examined external auditors' reliance on the work of internal auditors to reduce the cost of external audits, for example see (Felix et al 1998 and Gramling 1999).

One of the objectives of this research was to investigate the reliance decision of external auditors responsible for banks audits on the work of internal auditors in Sudanese banks. Part four of section two of the questionnaire has examined this issue. As discussed earlier, the reliance decision on the work of internal auditors by external auditors in Sudanese banks was addressed mainly by the three variables objectivity, competence and work performance and monitoring of internal controls. However, the fourth scale included statements aimed to test the three variables; furthermore, the researcher examined how external auditors rated the three variables according to their reliance decision. Therefore, the first part of discussion will be descriptive i.e. reflecting the means and percentages of the core statements, followed by the test of hypotheses related to the reliance decision placed by external auditors on the work of internal auditors in Sudanese banks.

Table (6-24) reported the results of means test for external auditors' reliance decision on the work of internal auditors scale, the overall mean score (2.876) revealed that the respondents were between neutral and dissatisfied with the work of internal auditors in Sudanese banks.

First, regarding external auditors degree of reliance on objectivity of internal auditors, more specifically the reporting level of internal audit departments, 62% of external auditors were not satisfied with the reporting level of internal audit departments (Statement No.1, appendix 4.4), while the mean value for the same statement was 2.717 (Table 6-24). Thus it can be argued that external auditors did not place enough reliance on internal auditors in terms of reporting level. Previous research found reporting and administrative levels to which internal audit departments report is a significant determinant of external auditors' evaluation of internal audit independence and objectivity, for example see (Clark et al 1981; Abdel-Khalil et al 1983 and Burnaby et al 1994).

In relation to the extent that internal auditors in banks have free access to bank records and employees, statements No 4 and 5 of the fourth scale tested the internal audit staff free access to bank records and employees, (Table 6-24) reported mean scores (3.326 and 3.369 respectively). Furthermore, 58.7% and 56.5% (appendix 4.4) of the external auditors agreed with the two statements; therefore, these two results were consistent with interview results that external auditors place some reliance on internal auditors' free access to bank records and employees.

Second, with regard to external auditors degree of reliance on competence of internal auditors,. According to the fourth scale results, 45.7% of external auditors believed that internal auditing staff in Sudanese banks was not subject to continuing education programmes designed for internal auditors with sample mean score (2.761) see (appendix 4.4 and Table 6-24) respectively.

Knowledge of internal audit staff was addressed by their knowledge of bank operations, internal procedures and regulations, and in new techniques of auditing. Regarding banking operations and internal procedures and regulations knowledge, results of interviews indicated that external auditors placed reliance on internal auditors' knowledge of bank operations (statements No 9 and 10 sample mean= 3.152 & 3.109, Table, 6-24) respectively. Moreover, the same statements reflected that

43.4% and 43.5% (appendix 4.4) of external auditors showed their reliance on internal auditors' knowledge of internal procedures and regulations. In terms of internal auditors' knowledge of new audit techniques, 73.9% (appendix 4.4) of external auditors believed that internal auditors' knowledge in this area was poor (sample mean 2.261, Table 6-24). Furthermore, interview results indicated that the majority of internal auditors in Sudanese banks lack knowledge of new trends and techniques in auditing. External auditors attribute this shortfall to the little formal internal auditing training received by internal auditors in banks.

The third issue addressed by the fourth scale was the degree of reliance placed by external auditors on the work performance of internal audit personnel. Statement No. 2 reflected that 52.1% of external auditors did not know enough about the scope of internal auditing function in Sudanese banks as it was classified as incomplete and inaccurate. This may lead to the increased number of fraud cases in some branches (General Auditor Report 2005). Furthermore, the mean score for the same statement (No. 2) was (2.717) leading to the same result. Keeping in line with these two results, interview results suggested that, with exception of banks head offices, branches internal audits were conducted once a year and no internal auditors are located in the bank branches even the large branches (appendix 5.3.1).

Statement No.3 tested the degree of reliance placed by external auditors on the way the directors of internal auditing supervise and control their staff, about 67% (appendix 4.4) of external auditors relied on the control and supervision mechanism applied by the directors of internal auditing within their departments (sample mean =3.522, Table 6-24). However, this control and supervision mechanism is accompanied by the existence of internal audit programmes and internal auditing working papers maintained by internal audit departments. Regarding the quality of internal audit programmes, 45.7% (appendix 4.4) of the external auditors did not accept their quality and about 36% of the external auditors explained their lack of reliance on the working papers used by the internal audit departments (appendix 4.4). Mean scores for the two statements were 2.652 and 2.935 (Table 6.24) respectively. In line with the last two statements, 59.7% (appendix 4.4) of the external auditors believed that internal audit department maintain internal audit charters that describe the internal audit department work in a reasonable way (sample mean=3.500). Previous research considered the internal audit charter as a very important element for internal audit departments as it should establish the objectives and scope of the internal audit function (Johnson 1986; Burnaby et al 1994 and Peursen 2004).

The fourth issue discussed by the scale was the existence of the internal audit function and its effect in reducing the cost of external auditing; therefore, the last three statements of the scale explored this issue. Statement No. 21 tested whether the existence of the internal audit function in Sudanese banks lead to a general reduction of the cost of external audits, about 45.5% (appendix 4.4 and sample mean=3.125, Table 6-24) of external auditors believed that the existence of internal audit function and an established system of internal controls monitored by internal auditors has a positive effect in reducing the cost of external auditing in terms of reducing the audit samples. Statement No. 20 covered whether external auditors responsible for audits of Sudanese bank were relying on internal auditors in banks to reduce the cost of external audit; however, about 63% (appendix 4.4) of external auditors did not rely on internal auditors work to reduce the cost of their audits (sample mean=2.500, Table 6-24). Previous researches looked at external auditors and the decision to rely on the work of internal auditors to reduce their costs (Felix 1998, Engle 1999 and Morrill and Morrill 2003). While Gramling (1999) explaining that relying on the work of internal auditors to reduce audit hours might affect the auditor independence and audit quality.

In assigning specific audit work to internal auditors in Sudanese banks to reduce the cost of external audit, statement No 22 indicated that 82.6% (appendix4.4 and sample mean= 1.978, Table 6-24) of external auditors did not agree to assign audit work to internal auditors although some previous researches encourage external auditors to assign some audit work to internal auditors, for example see (Ward and Robertson 1980 Edge and Farley 1991).

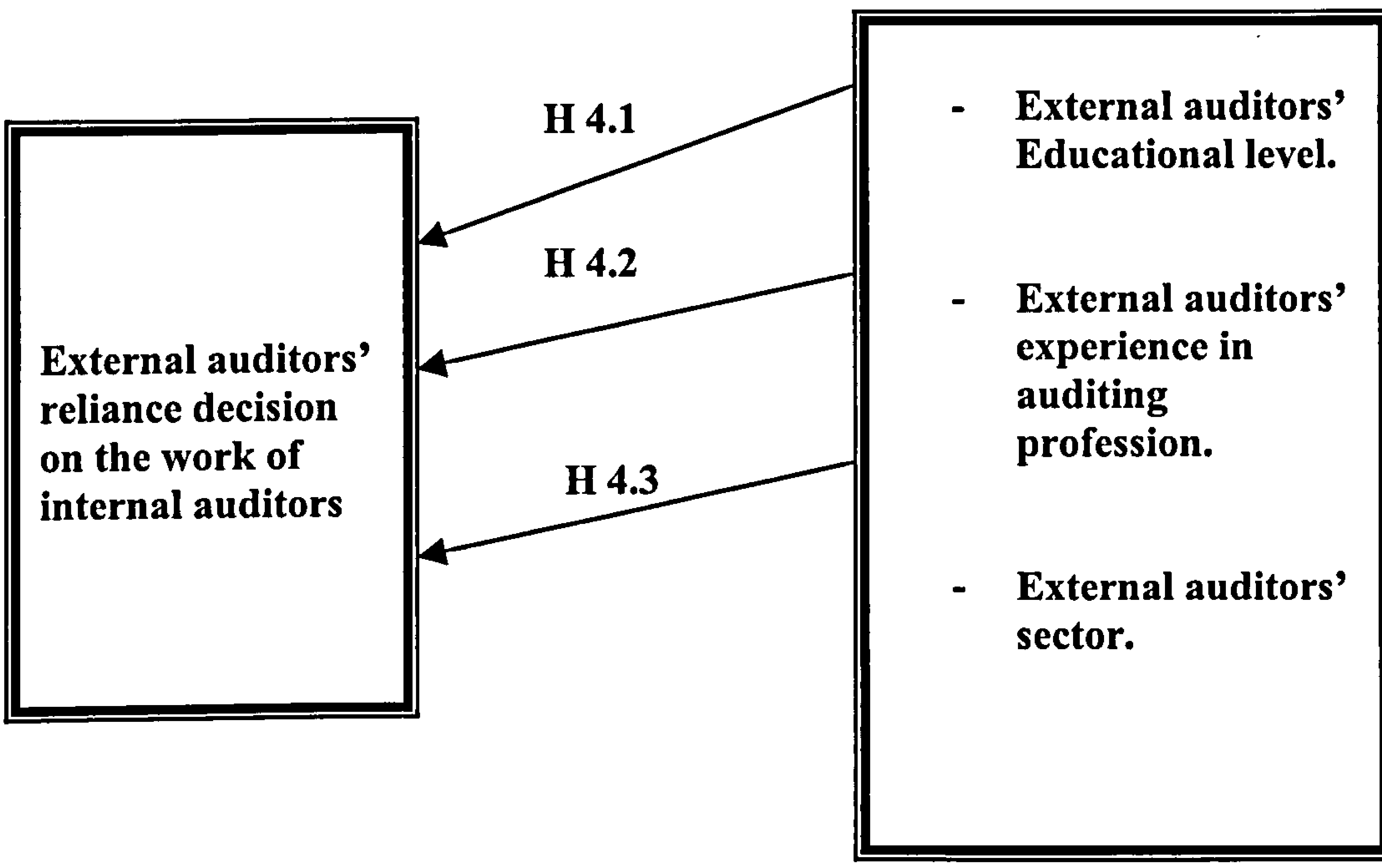


Figure 6.14 External auditors reliance decision on the work of internal auditors.

6.9 Hypotheses related to external auditors decision to rely on the work of internal auditors in Sudanese banks:

As discussed earlier part 4 of section 2 of the questionnaire aimed to test the views of **external auditors** regarding their degree of reliance on internal auditors in Sudanese banks based on the three variables (objectivity, competence and work performance) identified by the Professional Standards (SAS 65, SAS 500). Most of previous researches have used these variables to measure the reliance placed by external auditors on the work of internal auditors, for example see (Brown 1983, Schneider 1984, 1985, Margheim 1986, Messier and Schneider 1988, Krishnamoorthy 2002, Haron et al 2004, and Al-Twaijry et al 2004).

The analysis of variance has been used to test the relationship between educational levels, years of experience in auditing profession of external auditors and their reliance decision on the work of internal auditors, while the t-test has been used to test the relationship between external auditor' sector (private audit firms/ General Auditor) and their reliance decision on the work of internal auditors.

Hypothesis (4.1) aimed to test relationship between the external auditors' reliance decision on the work of internal auditors and their educational level. The analysis of variance reflected that there no significant statistical difference between the two variables. According to this result, the educational level of external auditors has no effect on their reliance decision on the work of internal auditors. Considering the result of overall mean (2.876, Table 6-24), it seems that external auditors did not place enough reliance on the work of internal auditors and therefore the educational level of external auditors has no effect. Most notably, the educational level of the surveyed external auditors ranged from first degree as the lowest degree, postgraduate diplomas in accounting, Masters and PhD degrees and Accounting Professional Degrees.

The aim of the second hypothesis (H 4.2) was to test the relationship between external auditors' reliance decision on the work of internal auditors and their experience in auditing. The analysis of variance revealed that there was no statistically significant difference between the two variables (Table, 6-26). Although no direct previous study has investigated the relationship between external auditors' experience and their reliance decision on the work of internal auditors, some previous researches investigated the relationship between experience of external auditors and evaluation of internal controls. For example (Ashton and Brown 1980 and Hamilton and Wright 1982) did not find a relationship between experienced and inexperienced external auditors in consensus on internal control evaluation, which is consistent with the findings of the study. Furthermore, Shelton (1999) found that auditors experience has no effect on the evaluation of competence of the internal audit function. Nevertheless, the above studies investigated the relationship between external auditors experience and evaluation of internal controls and the evaluation of competence; it could be an indicator that the experience of external auditors has no effect on their evaluations.

In other study, Gibbs and Schroeder (1980) investigated the effect of external auditors' experience in ranking the importance of objectivity, competence and work performance of internal auditors for external auditors. The study did not find a relationship between the study variables and auditors' experience, as in a way is consistent with the study results.

The objective of the third hypotheses (H 4.3) was to test the relationship between external auditors' reliance decision on the work of internal auditors in relation to auditors' sector (private audit firm/ General auditor Chamber). To test this hypothesis, the t-test was used (Section 6.7.2.4, figure 6.10). The results indicated a significant difference between the perceptions of the two groups. As can be seen, the overall mean of external auditors working in private firms was higher than external auditors who are responsible for pubic owned banks (Audited by the General Chamber Auditor), overall mean 3.027 and 2.761 respectively.

Abdulrahim (2005) argued that there are some differences between internal audit functions in both, the private and the public sectors in Sudan that internal controls in private sector banks are more reliable. In this scene, Carhill and Kincaid (1989) explained two reasons for these differences, firstly, government agencies work in a rigid framework and their activities are unauthorised by statute rule or regulations. Secondly, government agencies are service-oriented and therefore, attach less attention to cost factors and other factors related to profitability. Sparkman (1985) compared the internal audit function in private and public sector in Canada. He found that the efficiency and effectiveness audits had increased in both sectors; however, government organisations have focused more strongly on these two issues.

Goodwin (2004) compared the internal audit function in private and public sectors in Australia. One of the relations tested whether the internal audit function in the private sector differs from the public sector with regard to its interaction with external auditors. Results indicated that there is a little difference between internal audit activities and interaction between the two sectors.

Based on the results of the above studies, generally, it seems that internal auditing in the public sector is less reliable than in the private sector. These results are consistent with the study results that external auditors working in the GAC and responsible for public sector banks were putting less reliance on work of internal auditors than external auditors working in private firms and responsible for private banks and branches of foreign banks.

6.10 How external auditors' rated objectivity, competence and work performance and monitoring of internal controls according to their reliance decision?

The objective of this part was to examine how external auditors responsible for bank audits in Sudan rated the three factors (objectivity, competence and work performance and monitoring of internal controls). In other words, external auditors rated the three factors according to the degree of importance. In fact, if the internal audit department staff perform their work objectively, competently and perform their work properly then they are likely to be capable of contributing to an effective internal audit (Al-Twaijry et al 2004).

Many previous researches have been conducted to examine the external auditors' reliance decision on the work of internal auditors. Most of these studies have examined external auditors' general evaluations of the internal audit quality and their decisions to rely on the prior work of internal auditor using the three factors used in this study (for example, Brown 198; Schneider 1984, 1985, Margheim 1986; Messier and Schneider 1988; Krishnamoorthy 2002; Haron et al 2004; and Al-Twaijry et al 2004). Few studies have addressed auditor's decisions to use internal auditors as assistants in conducting the internal audit (for example, Ward and Johnson 1980; Wagonor and Ricket 1989; Maletta 1993; and Haron 1996).

The following table will present the overall mean scores for external auditors regarding their evaluations of objectivity, competence and work performance and monitoring of internal controls in Sudanese banks.

Table 6.27 External auditors ratings of the three factors

Factors	Overall mean score
Objectivity	**2.499**
Competence	**2.477**
Work performance and monitoring of internal controls	**3.007**

According to the results in Table (6.1), work performance was found to have a significant impact on the reliance decision of external auditors to use the work of internal auditors in Sudanese banks. In other words, external auditors evaluated work performance and monitoring of internal controls of internal audit departments as the most important factor when they rely on the work of internal auditors followed by objectivity and competence. Comparing this result with the results of overall means of the first three scales, it seems to be logical and consistent that the evaluations of both internal and external auditors in the first three scales indicated the same result in terms of their evaluations of objectivity, competence and work performance and monitoring of internal controls.

This result is consistent with Brown (1983) study that found that work performance was the most important factor followed by objectivity and competence. Schneider (1984) found work performance as the most important determinant in evaluating internal audit departments, competence rated as second and objectivity as third. Comparing this result with the study result, it seems that the two studies rated work performance as an essential one but with differences regarding competence and objectivity. Schneider (1985b) used an additive, compensatory model for the same variables and found the same rating (work performance, competence and objectivity) which were consistent in a way with the study results.

The study result was not consistent with (Messier and Schneider 1988; Peacock and Pelfrey 1989 and Edge and Farley 1991) who took competence and objectivity as the most important factors followed by work performance.

6.11 Summary:

This chapter aimed at presenting and discussing the findings that were generated from analysing the questionnaires data. For the questionnaire analysis, the Analysis of

Variance was used to test the relationship between the four demographic variables, namely, educational level, experience in auditing, experience in internal auditing and the numbers of internal auditors in the internal audit department and study variables, objectivity, competence and work performance and monitoring of internal controls. T-test was used to test the relationship between auditors' gender and occupation and the study variables.

This chapter commenced by discussing the results related to objectivity of internal auditors in Sudanese banks by considering the views of both internal and external auditors. Regarding objectivity, the overall evaluations given by internal and external auditors were considered to be between neutral and dissatisfied with objectivity variables. The results of the first four hypotheses tested revealed no significant differences although well-educated and well-experienced auditors gave lower evaluations than less educated and experienced auditors. The fifth and sixth hypotheses aimed to test the relationship between auditors' gender and occupation and their evaluation of objectivity, the results indicated significant differences between the two demographic variables and evaluation of objectivity.

Furthermore, this chapter discussed the results of evaluations given by internal and external auditors in relation to competence of internal audit departments of Sudanese banks, however, it seems that both of internal and external auditors were not satisfied enough with variables explained by competence scale (Table 6-14). This part aimed to examine the relationship between the four demographic variables educational level, experience in auditing, experience in internal auditing and the numbers of internal auditors in the internal audit departments and the evaluation of competence. The results did not indicate any significant differences. Regarding educational level and experience in auditing, it could be argued that well-educated and experienced auditors reported lower evaluations than less-educated and experienced auditors. The fifth and sixth hypotheses that tested the relationship between auditors' gender and occupation and their evaluation of competence reflected significant differences.

Moreover, the results of evaluations addressed by internal and external auditors regarding work performance and monitoring of internal controls of internal audit departments were discussed. According to the overall mean of work performance and monitoring of internal controls scale results (3.577, Table 6-19), it could be suggested that the two groups believed that this function was conducted reasonably. On the one hand, the results of testing the hypotheses related to this part revealed that there were significant differences between educational level, experience in auditing and respondents' evaluation of work performance and monitoring of internal controls. On the other hand, experience in internal auditing and the numbers of internal auditors in the internal audit departments and their relationship with respondents' evaluation of work performance and monitoring of internal controls reflected no significant differences. Auditors' gender and occupation and their evaluation of work performance and monitoring of internal controls indicated significant differences between the two variables and their evaluation of work performance and monitoring of internal controls.

Lastly, the reliance decision placed by external auditors on the work of internal auditors was discussed. Only external auditors attempted to this section, however, three relationships were tested, namely, external auditors' educational level, experience in the field of auditing and auditors' sector (private audit firms/ GAC auditors), in relation to their reliance decision to the work of internal auditors, in other words, the effect of the three variables on the reliance decision. The first two relations did not indicate any significant difference while the third one revealed significant relationship. Finally, in rating the three factors of the study according to their reliance by external auditors, work performance found to be the most reliable factor followed by objectivity and competence.

CHAPTER SEVEN
QUALITATIVE FINDINGS

7.1 Introduction:

This chapter reports on the findings of the interview conducted in Sudan during the period August to September 2005. The sample for this part of the study included four bank internal auditors and four external auditors.

The chapter commences with the objectives of the interviews. Thereafter, the chapter describes and summarises the interview data that was collected from directors of internal auditing in Sudanese banks and partners in auditing firms responsible for bank audits. The collected data from interviewees is analysed by using content analysis. This involved grouping together answers from the different interview transcripts by topic per the interview guide and allowing the guide to act a descriptive framework for analysis. Once answers had been grouped by topic, they were analysed using content analysis.

This chapter, which structured as follows, includes the objectives of interviews, the key outcomes of interviews and the profile of the interviewees. The main part of the chapter reports on the effects of each of the five factors identified in the key outcomes of the interviews (section 7.3), however, the section discussed these outcomes.

7.2 Objective of interviews:

Interviews were conducted in order to approach some issues that could not be captured properly or analysed through a quantitative approach. In general, most of issues in corporate governance and particularly in internal auditing are a matter of confidentially and sensitivity that may can be approached more easily by one-to-one discussion. Internal and external auditors as they are represented in the sample of interviewees are expected to provide information in a private meeting and explain further issues related to the effectiveness of internal auditing in Sudanese banks based on the three factors (objectivity, competence and work performance of internal auditors). The same may apply for external auditors who may specify matters that cannot be easily communicated in public regarding their degree of reliance on the work of internal auditors.

Thus, interviews were thought to be appropriate to offer guidance to fruitful extensions of the research findings and interpretations of the quantitative study

(Leventis 2001). Due to the limited numbers of internal auditors in Sudanese banks and the number of external auditors responsible for bank audits, beside the relatively low response of external auditors, the researcher conducted these interviews to support the results of questionnaires irrespective of the problems of carrying out an interview in a country like Sudan.

The interview research builds upon the general objectives of the research that explained and discussed in the quantitative study, however, they include; objectivity, competence and work performance of internal audit departments in Sudanese banks. In addition to external auditors reliance decision on the work of internal auditors and application of Sharia audits. Thus, reviewing the views of internal auditors in Sudanese banks and the views of external auditors responsible for banks' audits regarding the issue of objectivity was the first general objective. Examining the views of internal and external auditors related to their evaluation of the competence of the internal audit departments of Sudanese banks was the second general objectives of the research. These evaluations were triangulated using the approach of data triangulation (Modell 2005). The third general objective related to the evaluation of work performance and monitoring of internal controls by internal and external auditors. The interviews also addressed two additional general objectives, the reliance decision of external auditors on the work of internal auditors and the role of internal auditors in Sharia audits.

7.3 Key outcomes from interviews:

Interviewees explained that factors affecting the strength of internal audit function (objectivity, competence and work performance and monitoring of internal controls) are the most important factors when evaluating the internal audit function. However, it seems that interviewees were not satisfied enough with objectivity and competence but they showed satisfaction with the work performance and monitoring of internal controls of internal auditors. In other area, interviewees confirmed that external auditors were not place enough reliance on the work of internal auditors and therefore it is unusual for audit fees to be reduced because of reliance decision on the work of internal auditors. Finally, interviewees have some concerns about the training provided to bank internal auditors in the area of Sharia audits (for more details see appendix 6-1 to 6-5). Strength of internal audit function in Sudanese banks and the relationship between internal and external auditors was defined by five themes from the summary of interviews (appendix 6-1 to 6-5):

- Objectivity of internal audit departments.
- Competence of internal audit departments.
- Work performance and monitoring of internal controls of internal auditors.
- External auditors' reliance decision on the work of internal auditors.
- The role of Sharia audits as a control mechanism.

The interviewees, the position –internal/external auditors- in their organisations are shown in the table below. Each interviewee was labelled accordingly, and these labels are used to identify the origin of quotes used in the following sections.

Table 7.1 Interviews with internal and external auditors

Label	Interviewee	Position	Organisation
Au1	Hussien Abdelrahim	Certified Accountant	Sudanese Council of Certified Accountants
Au2	Mohammed Suliman Hajar	Certified Accountant	United Certified Accountants
Au3	Ahmed Osman Alraiah	Certified Accountant	Ahmed Osman and Co.
Au4	Omer Taha	Certified Accountant	Mustafa Tawfik and Co.
Au5	Fazaelkhair Ibrahim	Director of internal auditing	Bank of Blue Nile-Mashreque Khartoum.
Au6	Hamed Shumeina	Director of internal auditing	Saudi-Sudanese Bank. Khartoum
Au7	Hassan Hamed	Director of internal auditing	Bank of Khartoum, Khartoum
Au8	M. Ibrahim	Director of internal auditing	Sudanese Baraka Bank-Khartoum.

7.3.1 Objectivity of internal audit departments:

The purpose of this section is to express the views of internal auditors in Sudanese banks and the views of external auditors responsible for banks' audits regarding the issue of objectivity. Objectivity of internal audit departments was addressed by:

- The reporting level of internal audit departments in Sudanese banks.
- The organisational level of internal audit departments within the organisational chart of the bank.
- The ability of internal auditors in Sudanese banks to have access to the banks' records and employees.

The first issue discussed under the objectivity of internal audit departments was the reporting level of the department, in other words, to what level of management the internal audit department usually reports. According to survey results, all banks operating in Sudan maintain a board of directors. Furthermore, the Directive No 2 (2002) issued by Banking Controls Administration requires all banks to establish an audit committee (Section 4.9.3.2.2). However, with the exception of one interviewee, all of the respondents agreed that the reporting level of the internal audit department was the bank's managing director; some interviewees typically mentioned the following opinions:

> "In all banks the reporting level is the bank chief executive officer that means the internal audit department reports are presented to the bank manager"
> (Au 2)

> "The internal audit director used to report to the bank manger every three months as a maximum period as required by the regulations of bank of Sudan"
> (Au 4)

> "All of internal audit reports if it is regarding the quarterly reports, annual reports or special investigations reports are directly sent to the bank general manager. We haven't a direct relationship with the bank board of directors"
> (Au 7)

Only two interviewees pointed out that internal audit departments- in addition to bank managing director- sent a copy of their reports to the Board of Director's, as this is the highest level of management in Sudanese banks.

> "In all of the banks in which I was involved in its audit the internal audit departments in these banks report to the managing director of the bank with a copy of their reports to the board of directors. (Au 1)

Another internal auditor in a private owned bank mentioned:

> "We used to send our reports directly to the bank-managing director quarterly. A copy of our end of year internal auditing report will be sent to the board of directors" (Au 6)

One of interviewees explained that the type of ownership (public-owned/private) of the bank has no effect the reporting level of its internal audit department.

> "In fact in both, government owned banks and other types of banks whether they are privately owned or any other type of ownership. The reporting level is the managing director of the bank rather than the board of directors" (Au 1)

Previous research found that the level to which the internal audit department reports is a significant determinant of the departments' independence and objectivity (Clark et al 1981; Abdel-Khalil et al 1983 and Burnaby et al 1994). Furthermore, the survey results reflected that 69.9% (appendix4.1) of the surveyed internal and external auditors were not satisfied with the reporting level of internal audit departments in Sudanese banks.

Based on the above results it seems that internal auditors used to report to their bank-managing directors rather than the board of directors or its audit committees.

From the researcher's point of view, reporting the results of the internal audit department to the bank-managing director rather than the board of directors may affect the independence of the departments.

The second point discussed in the issue of objectivity was the organisational level of internal audit departments within the organisational chart of the bank. All of the interviewees explained that internal auditors in banks have their own separate departments in the organisational structure of the bank. Six interviewees explained that the main shortcoming identified in the organisational position of internal audit departments in Sudanese banks that the position of the departments in the banks put them under the administrative arm of the managing directors (appendix 5.1). Following are some quotations in this area:

> "One of the problems of the independence of internal audit departments is organisationally under the arm of executive management not the board of directors" (Au 1)

> "Regarding the position of internal audit departments in the organisational chart of the bank, I can say that the position of the internal audit department is under the bank director" (Au 3)

> "As we are reporting to the bank general manager, we administratively belong to the general manager of the bank" (Au 7)

In conclusion, each internal audit department maintains an internal audit department headed by a director, however, these departments are identified in the organisational chart of the bank but they are under the direct supervision of the managing director of the bank.

> "Although internal auditors have their own identity and have their own departments in the organizational structure of the bank, but still they are affected by the bank management according to their reporting level which is the bank director" (Au 2)

In general, the questionnaire results indicated that respondents accepted the organisational status of the internal audit departments in Sudanese banks. The interviewees' responses reflected that the organisational position of the department is under the direct supervision of the bank-managing director.

The last point discussed in objectivity of internal audit departments concerned the ability of internal auditors in Sudanese banks to have access to the banks' records and employees. The results of interviews suggested that all the interviewees agreed that the internal audit staff has access to all information and employees and they can review any department in the bank. The departments can conduct audit programmes freely and without any interference from management. Interviewees expressed the following opinions:

> "As internal auditors -according to the internal audit manual of the bank- we can review any bank records financial and other records in the head office and in other branches. We can investigate also and carry out any queries with any other staff at any position in the bank" (Au 8)

> "As far as I know internal auditors in banks can easily check any documents they want and they have access to any records in the bank. They also have the right to investigate any employee in the bank" (Au 2)

> "Internal auditors can review any of the bank records, including accounting and any other records. As internal auditors they can see and meet any personnel they want to investigate and to have all queries they want answered" (Au 6)

The interview results gave the impression that internal auditors have full access to the bank records and employees. This result is consistent with the questionnaire results (for more details, see section 6.8.1).

7.3.2 Competence of internal audit departments

The objective of this section is to highlight the views of internal auditors in Sudanese banks and the views of external auditors responsible for banks' audits regarding the competence of internal auditors in Sudanese banks. This issue was addressed by the following factors:

- Experience, training and educational background of internal audit staff.

- Knowledge of internal audit staff of new trends and techniques of auditing and internal auditing.

In general, in interviews there was an agreement among the respondents that the professional competence of internal auditors should be improved. Interviewees generally insisted that a good internal audit is one done according to the regulations of the banks and professional standards of internal auditing and that a good internal auditor is one who is qualified academically and professionally with experience in auditing and specifically in internal auditing. They added that the professional competency of internal auditors could be improved if the bank's management hire professional and experienced internal auditors rather than rotating employees from other departments to work as internal auditors. Directors of internal audit departments viewed themselves as competent in respect of communicating the results of audit work and discussing their audit findings with the chief executive officer of the bank.

Regarding the first issue, three points were discussed in the interviews. The first one discussed the competence of internal audit staff in terms of experience in auditing, training and educational background.

For internal auditors experience in auditing (with the exception of one interviewee) all of the respondents suggested that experience of internal auditors in auditing is one of shortcomings of competence factor, however, they summarised the reasons as follows:

- The majority of internal auditors in Sudanese banks are not appointed to work as internal auditors as most of the banks are rotating their employees within the departments of the bank, that include the internal audit departments.

> "Experience in auditing and internal auditing is one of the shortcomings of internal audit departments. The main problem that there is no cadre for internal auditors in the bank, internal auditors are transferred to internal audit departments from other departments without any training, after few period (one year) again the internal auditor transferred to other department and so on" (Au 3)

- Most of the banks working in Sudan have no clear cadre for internal auditors.

This issue tends to be quite important to all respondents, but external auditors expressed stronger views, for example:

> "Sudanese banks do not appoint internal auditors or even directors of internal auditing, but banks used to rotate employees from and to the internal audit department with quick a turnover of employees" (Au 2)

> "In terms of experience, most of the internal auditors in banks are not appointed to work as internal auditors, in other words they are transferred from other departments of the banks to work as internal auditor. In many cases, I noticed that all employees who have problems in their departments are transferred to internal audit department. So most of internal auditors transferred to this department lack experience" (Au 1)

The results obtained from the interviews were in line with questionnaire results, for example 53.2% of the respondents were not satisfied with the level of experience of internal auditors in Sudanese banks. Furthermore, results showed that 48% of respondents reported that banks' managements appoint inexperienced and incompetent internal auditors in Sudanese banks. Moreover, this result is consistent with Brierley et al (2001) study that found that internal audit departments in Sudanese public sector organisations are staffed with inexperienced internal auditors.

For internal auditors training and educational background, the majority of interviewees [seven out of eight (7/8)] explained that banks rely on in-house training for their internal auditors as the cost of external training is considered to be very expensive for banks. This result was in line with the questionnaire results that showed 44.8% (appendix 4.2) of surveyed internal and external auditors did not identify any encouragement of management regarding internal audit staff continuous development in the area of auditing and internal auditing specially in external training, however the mean value for the same statement was (sample mean=2.769, Table 6-14). Additionally, 52.5% (appendix 4.2) of participants indicated that banks internal auditors are subject to in-house training but with a focus on non-internal audit training courses, the mean value of the statement scored (sample mean=2.546, Table 6-14).

Furthermore, the only institute that provides training in banking studies is the Institute of Banking Studies as one of the main sources of training, but the problem of this Institute is that it specialises in banking studies more than providing training courses in auditing and internal auditing. Therefore, internal auditors conduct training in different fields of banking activities but very little training is conducted in the field of auditing and internal auditing. However, one of external auditors mentioned that:

> "As external auditor, as far as I know, most of banks are training their staff locally (inside Sudan) and more specifically in the Higher Institute of Banking Studies in Khartoum as this institute is specialised in banking studies. However, most of these training courses are short term courses" (Au 1)

In the 1980s and the beginning of the1990s, the training budgets provided for training were decreased very sharply due to the economic crises in Sudan, therefore, training in Sudanese banks was affected.

> "The training budgets of the banks decreased during the last decade, for this reason, the bank management focused on in-house training rather than out side training. For internal auditors the management used training provided by specialised personnel" (Au 4)

These shortcomings in internal auditing training have negative impacts on the professional competence of internal auditing staff. Regarding the government institutions, there are some attempts to improve the quality of public sector accounting personnel, the Ministry of Finance and Economic Planning established the Institute of Accounting Studies. This Institute offers some preliminary courses in internal auditing for government internal auditors and recently for private sector organisations (Brierley et al 2001).

In terms of educational background of internal auditors, all of interviewees agreed that majority of internal audit staff in banks obtain high school certificates in accounting and others hold a first degree in accounting, management or economics. Interviewees were asked to comment on continuing educational programs of internal auditors. Regarding the certification programs of internal auditors, the interviewees agreed that the banks' management do not encourage the external programs, because external training programs (outside Sudan) have a high cost and take a long time. However, few internal auditors in banks are registered as students in the Sudanese Council of Certified Accountants (SCCA).

Overall, respondents agreed that in Sudanese banks none of the internal auditors hold professional degrees in auditing or internal auditing, but a few are taking postgraduate degrees in accounting and management (masters' degrees).

The following quotations illustrate views expressed regarding the continuing education programmes of internal audit staff in the banks;

> "I do not think that banks support internal auditors to continue their educational programmes especially the Certification programmes in auditing and internal auditing because of the high cost of these training programmes" (Au 2)

> "In the best situations the bank management encourage the employees to obtain the membership of the Sudanese Council of Certified Accountants on part time bases due to the relatively low cost" (Au 5)

The second point addressed in the issue of competence was the knowledge of internal auditors of new trends and techniques of auditing and internal auditing.

The majority of interviewees (6/8) linked between the few opportunities of formal training in auditing and internal auditing provided to internal auditors and, their lack of knowledge of new trends of internal auditing.

> "As a result of poor training opportunities in banks for internal auditors, internal auditors have not got enough knowledge in auditing and internal auditing issues" (Au 3)

> "Due to lack of training in internal auditing, our staff has a weak knowledge of new techniques of modern development in auditing and internal auditing" (Au 7)

However, two interviewees explained that the internal auditors in Sudanese banks, with the exception of branches of foreign banks, lack knowledge of application of new trends of internal auditing. Two internal audit department directors explained that:

> "Internal auditors in Sudanese banks with the exception of branches of foreign banks lack knowledge of application of new trends of internal auditing. From my past experience in working in a branch of foreign bank in Sudan, these branches of foreign banks used to provide high quality training courses for its employees in side and out side Sudan" (Au 5)

> "To some extent we are in a better position when compared with other banks working in Sudan. Our internal auditors are subject to different types of training programmes in internal auditing that increased their knowledge in different areas of internal auditing" (Au 8)

In Conclusion, it is apparent that interviewees were not satisfied with the competence of internal audit departments in terms of internal auditors' experience, training and educational level and their knowledge of new techniques of auditing and internal auditing. Interview results in this area supported the questionnaire results (see section 6.8.3).

7.3.3 Work performance and monitoring of internal controls:

The main objective of this section is to present the opinions of internal and external auditors related to their evaluation of work performance and monitoring of internal controls of internal audit departments of Sudanese banks. Regarding this issue, three points were addressed in the interviews;

- The internal audit programs used by internal audit departments and the quality of these programs.

- Internal audit departments' coverage the bank's departments and branches.

- The role of internal auditors in banks in monitoring the internal control system.

Regarding the first issue, there was a strong agreement within the interviewees that that the internal audit departments in Sudanese banks have written internal audit programs. These internal audit programs were prepared by the internal auditors in the bank and sometimes under the supervision of the independent audit firm. Usually these audit programs were written and documented in order to facilitate the procedures for the internal audit staff. Regarding the quality of internal audit programs, it was strongly felt that the quality of audit programs was reasonable but they criticised the degree of implementation of these audit programs, they refer that to the degree of qualifications and experience of internal auditors, and the control and supervision environment in the internal audit departments.

> "In all audits I noticed that all internal audit departments in banks maintain audit programmes and detailed internal audit manuals that cover most of the bank's activities" (Au 2)

> "I can say all of banks have detailed audit programmes, and some of them have audit manuals. What I have noticed that these audit programmes are written and well documented" (Au 3)

One of internal audit directors mentioned that;

> "These audit programmes are very detailed describing all of the procedures needed for internal auditors to conduct their work" (Au 8)

Within the same issue, it is argued that the size of the bank and the number of branches play a big role in the design of the internal audit programmes, an external auditor explained that;

"These audit programmes were set according to the needs of the internal audit department. However many factors are contributing for example the size of the bank, the number of the branches, the number of employees" (Au 1)

Regarding internal audit programmes and manuals, two interviewees expressed their concerns about the process of updating the programmes:

> "But the only concern about these internal audit programmes and manuals that they are not updated, for example I noticed in a bank one of these not updated since the establishment of the bank in 1983" (Au 2)

> "During the last year we engaged with an external consultant to update our internal audit programmes. What I can to say we try to update our programmes on a continuous basis" (Au

These results are consistent with the questionnaire results that confirmed the existence of internal audit manual in the surveyed banks (table 6-19).

The second point addressed by work performance and monitoring of internal controls of internal auditors in Sudanese banks was internal audit departments' coverage of the bank's departments and branches.

Interviews also gave insights into the ability of internal audit departments in covering the bank's departments and branches. In this aspect, more than half of interviewees (5/8) agreed that there is no permanent place for internal auditors in the banks' branches even in the large branches in Khartoum and other states of Sudan. They argued that the internal auditors are mainly located in one building (in most cases, the head office of the bank). The following quotations were illustrated;

> "Internal auditors are mainly located in the head offices of the banks"
> (Au 3)

> "Like most of the banks in Sudan, we haven't internal auditors in branches. The internal audit department relies on the annual audits of the branches"
> (Au 6)

> "The internal audit department is located in the head office, as a result we used to audit the head office transactions regularly" (Au 8)

The internal auditors' activities include reviewing the head office and the branches inside the capital (Khartoum) and the other branches in other states of Sudan. Regarding the branches inside the boundaries of Khartoum state, on average they used to cover it two times a year. State branches used to be audited once a year. External auditors have some concerns about the number of audits conducted by internal auditors for the branches, for example;

> "Internal audit teams usually conduct one audit every year for every branch. I think one audit is not enough" (Au 1)

> "As far as I know, the internal audit coverage for the banks' branches is once a year" (Au3)

While internal auditors seems to be satisfied with the number of audit conducted during the year as required by the regulations of the Bank of Sudan but sometimes there are some branches that are audited more than once. This depends on the activity of the branch and sometimes if a fraud case has occurred in the branch.

> "According to the regulations of the Central Bank, each branch should be audited at least once a year, so in most of the cases branches are audited once a year and sometimes more" (Au 8)

> "For branches internal audits, in most of the cases it is conducted once a year, but there are some branches are audited more than once, this depends on the importance of the branch and its activity and if there is a fraud case in the bank" (Au 2)

This result in consistent with the questionnaire results, statement No 2 in Table 6-19 indicated that the numbers of internal auditors in Sudanese banks were sufficient for the numbers of branches covered by their departments. Results revealed that 63% (appendix 4.3) of the surveyed auditors agreed that the numbers of internal auditors is not sufficient when compared to the numbers of departments and the number of branches audited by internal auditors. The Statements' mean value revealed that respondents were between neutral and disagreement with this issue (sample mean= 2.546, Table 6-19). More specifically, internal auditors explained that their numbers were not sufficient when compared to the numbers of transactions they audit and the number of branches they audit

The last issue, discussed with the interviewees in this part, was the role of internal auditors in monitoring the internal control system in Sudanese banks. Historically, one of the main roles of internal auditors is to monitor the internal control system. Although there are many changes in the roles of internal auditors (Goodwin 2004) but still in the Sudanese business environment, the main role of internal auditors is monitoring the internal control system. In line with this fact, there were very strong agreement between the interviewees (8/8) that the internal auditors main role is the monitoring the internal controls according to regulations of the management and the regulations of the Central Bank of Sudan (Directive no. 2, *Preventive Controls*) (for more details see Chapter 4, Section 4.9.3.2.2) and the Basel Committee recommendations (1998). In evaluating auditors' interviews, the following quotations were illustrated;

> "I agree that internal auditors monitoring of internal controls is reasonable. I can argue that in Sudanese auditing environment, internal auditors are mainly concerned with monitoring of internal controls as well as financial audit"
> (Au 3)

> "They are monitoring and evaluating the internal control system regularly"
> (Au 4)

> "We used to evaluate the control system and monitor it. We also stick to the regulations of bank of Sudan regarding the monitoring of the control systems. Furthermore, we implement all procedures in the internal audit manual regarding the internal controls"
> (Au 8)

It was suggested that the internal auditors are responsible for the evaluation of the efficiency of bank operations and for ensuring the safeguarding of the bank assets. However, one of the interviewees asserted that;

"In general, internal auditors are doing this function properly. Internal auditors in Sudanese banks are mainly focusing on the financial audits rather than any other types of audits but in most of the cases internal auditors are involved in designing the internal control systems" (Au 1)

It seems that internal auditors in Sudanese banks used to be involved in the design of internal controls; however, this critical observation was mentioned by one of the interviewees (Au 1), furthermore, the questionnaire results were in line with this result (Table 6-19). Previous studies suggested that involvement of internal auditors in the design of internal controls might impair the independence of internal auditors, for example see (Rittenberg 1977, Plumlee 1985 and Ponemon 1991).

In conclusion, regarding work performance and monitoring of internal controls of internal auditors in Sudanese banks, the interview analysis indicated that interviewees were satisfied with performance of internal auditors in this issue.

7.3.4 External auditor's decision on the work of internal auditors:

In this part of interviews four external auditors were interviewed to comment about how they rely on the work of internal auditors in terms of internal audit department objectivity, competence and work performance. The interview evidence suggested that all of the respondents did not place complete reliance on the work of internal auditors.

Interviewed external auditors identified a number of specific shortcomings when they rely on the work of internal auditors. In their responses to the question, "As external auditor, do you rely on the work of internal auditors?" the following opinions were typically:

"I cannot place complete reliance on the work of internal auditors. Because first, they are not independent enough as I mentioned earlier, secondly they are not technically competent. In terms of their work performance, the situation is better as they have a clear system and manuals" (Au 1)

"In my opinion, in Sudanese banks, internal auditors have not got the required qualifications" (Au 2)

> "Practically in Sudanese banks, it is very difficult to put full reliance on the work of internal auditors, mainly for their poor competence" (Au3)

> "But in fact most of internal audit departments in Sudanese banks are not freely performing their work and there are many factors affect their competence" (Au 4)

Based on the interviewees' responses, a number of weaknesses were explained in the area of objectivity and competence. Regarding the objectivity, it can be argued that the external auditors were not satisfied with the reporting level of internal audit departments but they place some reliance on internal auditors' ability to have access to bank records, documents and employees. This result was in line with the questionnaire results (Section 6.8.1). From external auditors responses, it is apparent that they were not satisfied with competence of internal auditors. It was suggested by the respondents that the technical competence of internal audit departments were weak due to poor training opportunities of departments' staff, quick internal audit staff turnover and lack of qualified staff. These results were consistent with the questionnaire results (Section 6.8.3).

In terms of work performance, On the basis of interview evidence, some of the interviewees explained that work performance of internal auditors was reasonable and that most of the departments maintain internal audit manuals and clear systems of internal auditing (See appendix 5.3.1, 5.3.2, 5.3.3 and 5.3.4)

> "In terms of their work performance, the situation is better as they have a clear system and manuals" (Au 1)

In summary, groups of questions assessed the relative importance of various factors affecting the reliance decision from the perspective of the external auditor. The results obtained from the interviews with external auditors regarding the three factors (objectivity, competence and work performance and monitoring of internal controls) were in line with external auditors rating of the three factors identified in Table 6.1. In this table external auditors rated work performance as the most important factor when they rely on the work of internal auditors followed by objectivity and finally competence.

7.3.5 Application of Sharia audits:

In the last issue discussed by interviews, both internal and external auditors were asked to comment on the role of internal auditors in Sudanese banks to apply Sharia audits in Sudanese banks. However, the Bank of Sudan regulations required each bank operating in Sudan to establish a Sharia board to ensure that the banking activities comply with the Islamic Financial Rules (see Chapter 4, Section 4.9.3.2.1).

The Interview findings suggested that most of the banks have established Sharia Supervisory Boards to supervise the bank transactions and its financial statements and to monitor the work of internal auditors regarding Sharia audits. Two external auditors noted;

> "By law each bank in Sudan has a Sharia Supervisory Board, in general, internal auditors when checking the bank transactions, they ensure that the transactions are complied with the Sahria rules (Islamic rules)" (Au 1)

> "Many banks established Sharia Supervisory Boards to ensure that the banks' transactions are being conducted according to the Islamic financial rules" (Au 4)

The role of internal auditors in banks regarding the Sharia audits is to implement these audits, however, their role include checking out that the daily transactions of the bank are not including usurious dealings and extended to the examination of financial statements.

> "They also should check out that the transactions are not including usurious dealings and ensure that all of the transitions audited are complied with Islamic rules" (Au 8)

Although interviewees recognised the benefits of Sharia audits, especially in an Islamic financial systems and the pressures of the Central Bank of Sudan and the Ministry of Finance (The Ministerial Decision No. 184, 1992) on financial institution to establish Sharia Supervisory Boards. However, five interviewees criticised the performance of internal auditors in this area:

> "As external auditor, I think most of the internal auditors in banks are not aware enough of Sharia audits and they need to more about it" (Au 2)

> "The problem is that most of internal auditors in banks are not experts in the Sharia issues" (Au3)

> "The quick turnover of internal audit employees within their banks made internal auditors not aware of these Sharia audits" (Au 4)

To overcome the shortcomings of the performance of internal auditors in the area of the Sharia audits interviewees suggested the following:

- To train internal auditors in Sharia audit and Islamic financial issues.
- To increase the awareness of internal auditors in banks of the importance of Sharia audits as all Sudanese banks in the north states are working subject to the Islamic financial rules.
- To decrease the quick turnover of the internal audit departments staff, as the rotation cycle of employees between the departments of Sudanese banks is considered to be high (appendix 5.5).

In summary, it seems that the Ministry of Finance and the Central Bank are undertaking considerable efforts to issue the laws and regulations to improve the work of Sharia Supervisory Boards in financial institutions in general and banks in particular. From the general interview results in this area, it seems that internal auditors need more training and the Sharia Supervisory Boards should do more with efforts to increase the internal auditors' awareness in Sharia audits.

7.4 Summary:

The results from interviews have been presented in this chapter. The interviewees were of a similar profile, in terms of age, work experience and positions within their organisations, as respondents to the questionnaire. The interviews were conducted with 8 interviewees, 4 banks' directors of internal auditing and 4 audit partners responsible for bank audits. The interviews covered five areas, objectivity, competence and work performance and monitoring of internal controls of internal auditors in Sudanese banks. In addition to the reliance placed by external auditors on the work of internal auditors and the role of internal auditors in application of Sharia audits.

The majority of the interviewees were not satisfied with the objectivity of internal auditors, in terms of reporting level and the organisational level of the departments. In terms of internal auditors' ability to have access to records and employees, they show some satisfaction with this issue.

In relation to the competence of internal auditor, there was strong concordance across the interviewees that internal auditors in Sudanese banks are lacking of competence due to the poor opportunities of training provided to internal auditors. Furthermore, it seems that the quick turnover of internal auditing staff affected their experience.

Interviewees showed strong agreement that work performance and monitoring of internal controls performed by banks internal auditors were in a better situation when compared with objectivity and competence, however, they expressed their satisfaction with this issue.

Regarding the reliance decision placed by external auditors on the work of internal auditors, the results of interviews were in line with the questionnaire results that external auditors considered work performance and monitoring of internal controls as the most important factor when they rely on the work of internal auditors followed by objectivity and competence.

Finally, interviewees emphasised the efforts of the Ministry of Finance and the Central Bank of Sudan to introduce the Sharia audits in Sudanese banks as all of Sudanese banks in the Northern States are operating according to the Islamic financial regulations. In contrast, the interview results indicated that internal auditors need more training in this area.

CHAPTER EIGHT

CONCLUSION AND RECOMMENDATIONS

8.1 Introduction:

This thesis investigated the strength of internal audit departments in Sudanese banks by examining the views of internal auditors in Sudanese banks and external auditors responsible for banks audits. To achieve this objective, three variables were used- objectivity, competence and work performance and monitoring of internal controls- to evaluate the strength of internal audit departments. Furthermore, the study examined external auditors' reliance on the work of internal auditors. This chapter summarise the study results regarding objectivity, competence, work performance and monitoring of internal controls in Sudanese banks and external auditors' reliance decision on the work of internal auditors. The chapter provides some recommendations and suggests areas for future research. Finally, the chapter provides a conclusion for the research.

8.2 Summary:

8.2.1 Objectivity of internal audit departments:

Internal and external auditors evaluated objectivity of internal audit departments in Sudanese banks according to its organisational status, reporting level and the process of appointing and removing the director of the internal audit department. Means, respondents' percentage of agreement and results drawn form interviews were used to evaluate objectivity. According to their evaluation, the following conclusions can be drawn:

- All banks operating in Sudan maintain internal audit departments, and these departments are headed by directors. Furthermore, internal audit personnel have free access to people and information and therefore, they can perform their work freely and objectively.

- Regarding the position of internal audit departments in the organisational chart of the bank, interviews results suggested that the organisational position of internal audit departments in the banks put it under the administrative arm of the bank managing directors, therefore, this situation may impair the independence of the departments.

- Although all banks have board of directors and –only three banks maintaining audit committees-, it is noticed that these banks report to the bank-managing directors rather than the board of directors and audit committees. This situation may have negative implications on the independence and objectivity of internal audit departments.
- The process of appointing and removing the directors of internal auditing in Sudanese banks is the responsibility of the bank-managing director rather than the bank board of directors. This position may affect the directors' decisions and reports, specially, if it is related to bank managing directors.

Although the internal audit staff in banks have the free access to employees and the information they need to accomplish their work but it seems that internal audit departments face serious problems of objectivity. This is apparent through the position of the department within the banks organisational structures that allocate internal audit departments under the direct supervision of the bank-managing director rather than the board of directors. Furthermore, all banks surveyed maintained board of directors and three of them established audit committees (as required by the Bank of Sudan, Directive No.3 2002) but all of the internal audit departments address their reports to the bank managing directors rather than the bank board of directors or the audit committees. Bank-managing directors involved heavily in decisions of appointing and removing the internal audit directors. Such decisions should be decided by the board of directors (Joseph and Raghunandan 1994, and Raghunandan et al 1998).

In testing the hypotheses related to objectivity of internal audit departments, Analysis of Variance is used to test 4 relationships, educational level, experience in auditing, experience in internal auditing profession and the numbers of internal auditors working in the internal audit department and their evaluations of objectivity (H 1.1, H1.2, H 1.3 and H 1.4). No significant differences in means of objectivity were found.

Furthermore, the hypotheses tested the relationships between auditors' gender and auditors' occupation and their evaluation of objectivity of internal audit departments in Sudanese banks using t-test.

Results indicated significant difference between auditors' gender and their evaluation of objectivity (H 1.5). Furthermore, both males and females showed disagreement with the status of objectivity, however, females gave lower evaluations than males.

Regarding the relationship between auditors' occupation an evaluation of objectivity (H 1.6), results reflected significant difference between the evaluations of internal and external auditors, that external auditors' evaluations were lower than that internal auditors' evaluation.

Interview results in this area were in line with questionnaire results. Interviewees believed that internal auditors in banks report to the bank managing director rather that the board of directors and audit committees. Furthermore, interviewees agreed that the organisational position of the internal audit departments put the department under the direct supervision of the bank-managing director. There was strong agreement throughout the interviewees that internal auditors in banks have the free access to bank records and personnel.

8.2.2 Competence of internal audit departments:

Competence of internal audit departments in Sudanese banks was addressed by educational background, experience, training and qualifications of internal audit personnel. In general, the respondents' overall mean score was (2.769) indicated that internal and external auditors were between neutral and dissatisfied for their evaluation of competence of internal audit departments. Means, respondents' percentage of agreement and results of interviews were used to examine the competence. Accordingly the following conclusions can be drawn:

- Regarding internal auditors education, although 52.6% of internal auditing staff in Sudanese banks obtained first university degree, both internal and external auditors were not satisfied with the education background of internal auditing personnel in Sudanese banks. Not like external auditing, internal auditing has no specific body to supervise and improve the profession; therefore, internal auditors are lacking certification programmes. As a result the majority of internal auditors in Sudanese banks are not qualified and specialised.

- Training internal auditing staff represents the corner stone for the competence of internal audit departments (Johnson 1991). The study results suggested that internal auditors in Sudanese banks are lacking of training especially (abroad training) for its high cost. However, it suggested that the current training opportunities provided by some institutions in Sudan do not meet the needs of internal auditors.
- In relation to internal auditing staff experience in internal auditing profession, results indicated that the quick rotation of employees within the banks' departments including internal audit departments has negatively affected the experience of the departments' personnel.

In summary, the survey and interview results reflected that the respondents were not satisfy with the competence of internal audit departments. In addition to the poor training opportunities in internal auditing, inexperienced internal auditors, with exception of branches of foreign banks, results indicated that internal auditors are lacking of knowledge of new trends in auditing and internal auditing in particular.

In testing the hypotheses related to competence of internal audit department, the Analysis of Variance is used to test 4 hypotheses (H 2.1, H 2.2, H 2.3 and H 2.4) namely, auditors' educational level, auditors' experience, auditors' experience in internal auditing and the number of internal auditors employed in the bank internal audit department and their evaluation of competence. Results indicated no significant differences in means of competence for the four factors.

Hypothesis (H 2.5) reflected a significant difference between gender and their evaluation of competence of internal audit departments that female's evaluated competence lower than males.

Hypothesis (H 2.6) indicated a significant difference between internal and external auditors and their evaluation of competence. However, this showed that internal auditors evaluated internal audit departments' competence higher than external auditors' evaluations.

8.2.3 Work performance and monitoring of internal controls:

Work performance and monitoring of internal controls performed by internal auditors was reflected by the existence of internal audit programmes and the quality of working papers, internal audit coverage of banks' branches and departments and the role of bank internal auditors in monitoring the internal control system. Means, respondents' percentages, interview results were used to evaluate internal auditors work performance and monitoring of internal controls. Furthermore, hypotheses related to this section were tested. Accordingly the following conclusions can be drawn:

- Results indicated that the majority of Sudanese banks are keeping reliable internal audit manuals that describe the internal audit procedures. These manuals were written and documented. Furthermore, results indicated that internal audit directors used to conduct regular checks on the working papers, in other words, they used to supervise their employees regularly.
- Regarding audit coverage of bank branches and departments, results indicated that internal audit departments audit banks' branches at least once a year (except few branches in areas affected by the civil war) and conducting regular audits for the head office departments. This result is consistent with the recommendations of the bank of Sudan that branches should be audited once a year. Despite the clearly efforts of internal audit departments in exercising their work ideally, the descriptive analysis showed that the number of internal auditors working in internal audit departments is not sufficient as compared to the duties they perform.
- With respect to the role of internal auditors in monitoring the internal control system, results suggested that internal auditors in surveyed banks perform this function reasonably. Furthermore, internal auditors used to evaluate the adequacy of the internal control system and ensure that the financial controls are in place. The only criticism addressed by the respondents was the involvement of internal auditors in designing the internal control system.

In order to test the hypotheses related to work performance and monitoring of internal controls, 4 hypotheses (H 3.1, H 3.2, H 3.3 and H 3.4) were examined using Analysis of Variance. The purpose of these hypotheses was to test the relationship between participants' educational background, experience in auditing, experience in internal auditing and the number of internal auditors working in the internal audit department and their evaluation of work performance and monitoring of internal controls.

The first two relationships reflected significant differences in means among the views of respondents. Hypotheses 3 and 4 indicated no significant differences.

T- test is used to test hypotheses 5 and 6 (H 3.5 and H 3.6). The purpose of two hypotheses was to test the relationships between gender and auditors' occupation and their evaluation of work performance and monitoring of internal controls. Regarding gender evaluations, males evaluated work performance and monitoring of internal controls higher than females indicating a significant difference. The relationship between auditors' occupation and the evaluation work performance and monitoring of internal controls reflected a significant difference, furthermore the evaluations given by external auditors were lower than internal auditors' evaluations.

8.2.4 External auditors' reliance decision on the work of internal auditors:

The need for the coordination between the work of internal and external auditors is one of issues discussed in both academic and professional literature (see Sections 2.6.6 and 2.6.8). Therefore, the need for coordination of their work is becoming more essential to minimise duplication of work, time and cost of audits.

In this study, like many previous studies (see Section 2.6.16), external auditors' reliance decision on the work of internal auditors was addressed by objectivity, competence and work performance and monitoring of internal controls of internal auditors in Sudanese banks.

Based on means results, respondents' percentages and interviews, the following conclusions can be stated;

- The overall mean score of external auditors for their relying decision on the work of internal auditors was (2.876).
- The overall mean score for evaluation of objectivity was (2.499). The respondents considered the reporting level of internal audit departments as not sufficient as they report to the bank-managing directors. All of banks operating in Sudan maintain internal audit departments, therefore, ideally they should report directly to the board of directors. In terms of access to

employees and information, results indicated that internal audit staff has the free access to employees and information they need.

- The overall mean score for external auditors' evaluation of competence was (2.477). Competence of internal auditors was measured by experience of internal auditors, training provided (short and long-term training) and educational background. Results reflected dissatisfaction with these three issues. Furthermore, external auditors place some reliance on internal auditors' knowledge of bank operations and procedures.
- The overall mean score for external auditors' evaluation of work performance and monitoring of internal controls was (3.007). In relation to scope of internal auditing, external auditors were not satisfied enough as it was described as incomplete and inaccurate. External auditors placed reliance on the way the internal audit directors supervise their staff and the quality of working papers retained by the internal audit departments. Furthermore, external auditors were not relying on the work of internal auditors to reduce the cost of external auditing.
- In rating the importance of objectivity, competence and work performance and monitoring of internal controls for external auditors when they rely on the work of internal auditors. External auditors rated work performance and monitoring of internal controls as the most important factor followed by objectivity and competence.

This section tested three hypotheses. The Analysis of Variance was used to test the effect of external auditors' educational level and external auditors' experience in auditing in relation to their reliance decision on the work of internal auditors. No significant difference in the means has been found for the first two hypotheses (H 4.1 and H 4.2). The t-test was employed to test the relationship between external auditors' sector (private audit firms/ General Auditor Chamber GAC) regarding their reliance decisions on the work of internal auditors. The result of this test indicated a significant difference between the two groups. External auditors working in private audit firms and responsible for private and branches of foreign banks audits placing more reliance on the work of internal auditors more than external auditor working in GCA and responsible for public sector banks.

8.3 Recommendations of the study:

Considering the findings of the study, some recommendations can be suggested regarding objectivity, competence, work performance and monitoring of internal controls and the relationship between internal and external auditors, especially for Sudanese banks.

(1) Internal audit departments in Sudanese banks should strive to create objective and independent internal audit function. As mentioned earlier, all of Sudanese banks have board of directors, so the research recommend that the reporting level of internal audit departments should be the board of directors rather than bank managing director. Furthermore, board of directors of banks should strengthen the objectivity of directors of internal auditing, in this issue, it is recommended that appointment and removal procedures of internal audit directors should be approved by the board of directors or its audit committee.

(2) Banks' managements should work towards increasing the competence of internal auditing staff at banks. Lack of professional training programmes has heavily affected the technical competence of internal auditors; therefore, it is recommended that banks should invest in their internal auditors and provide them the appropriate short-term training programmes as well as create opportunities for internal auditors to join Certification programmes in auditing and internal auditing. In line with the training issue, banks' managements should consider the problem of quick turnover of internal audit departments' personnel. Therefore it is recommended that well-trained internal auditors should be retained in the internal audit departments for long time.

Retaining internal auditors (with required training) in their departments will assists in transferring knowledge from experienced senior staff in the department to non-experienced internal auditors.

(3) One of the problems of internal audit departments in Sudanese banks is the issue of internal audit coverage. Branches are covered once a year and the number of internal auditors was not sufficient when compared with their activities. The research recommends that branches audits should be more than once a year especially in large branches as well as existence of internal auditors in large branches. Furthermore, banks with large number of branches should increase the number of their internal auditors to overcome the problem of audit coverage.

(4) Banks should develop their employees' knowledge in general and technical staff in particular, subscription in specialised journals and periodicals could be useful.

(5) Creating a positive relationship between internal and external audit functions, however, future coordination between the two functions in Sudanese banks may lead to reduction in the cost of audits and time spent. Examples for coordination could be in sharing information on sensitive issues such as risk analysis and coordinate audit plans.

8.4 Further research:

Since this is the first study in Africa and Arabian countries that examined the strength of internal audit function and reliance decision placed by external auditors on the work of internal auditors in the banking sector, there is a need for more research in order to reach more generalisable conclusions in this field.

First, as mentioned earlier, the government owned 4 banks and contributing in the capital of 7 banks. At the present two of government banks are under the process of privatisation (Bank of Khartoum and El Nilein Bank), and privatisation is planned to be completed in 2010, future research could be concentrate on changes in the strength of internal audit function and the relationship between internal and external auditors in privatised banks by comparing the situation before and after privatisation.

Second, as there are some differences in financial regulations and practices among African and Arabian countries, this study should be conducted in other African or Arabian countries and comparing it with the current study. This will provide further insight on the effect of country-specific auditing regulations and practices on the strength of internal audit function and relationship between internal and external auditors.

Third, the results of the study can be used as a base for other studies in other sectors in Sudan such as oil and insurance sectors that are developing very fast.

8.5 Limitation of the study:

Since the issue of strength of internal audit function rests on the perceptions of different groups in an organisation, the most obvious limitation of this study was the selection of the groups to represent the study. In this study, internal auditors in Sudanese banks and external auditors responsible for banks' audits were selected for the study; however, it seems that other groups interacting with internal and external auditors can contribute to this issue such as board of director members and key staff at banks. Hence, the results of the data could not be generalised beyond these two groups. Furthermore, for external auditors, the sample selected was not entirely random but rather reliance was placed on external auditors audited banks. Moreover, very few internal audit directors and partners at auditing firms accepted to be interviewed, however, out of 20 individuals contacted; only 8 were interviewed. Finally, the questionnaire was personally distributed; however, the researcher was merely acting as a postman. That is, in most of the cases, the questionnaire was handed out in the targeted banks and audit firms and collected at a later time. Therefore, the influences of the personally administered questionnaire could exist in this study in addition to the other influences of a questionnaire as the data collection method.

8.6 Conclusion:

This study aimed at examining the strength of internal auditing function and the relationship between internal and external auditors in Sudanese banks in terms of relying decisions placed by external auditors on the work of internal auditors. The strength of internal audit was measured by objectivity, competence and work performance and monitoring of internal controls, while reliance decision on the work of internal auditors was based on their evaluations of the factors.

Regarding objectivity (independence) of internal auditors, the results revealed that the reporting level of internal audit departments was found to a significant determinant of objectivity, and that the higher reporting level, the higher objectivity. Furthermore, the process of appointing and removing the director of internal auditing was heavily affecting the independence of their departments that the involvement of bank-managing directors was very clear.

Internal and external auditors considered the competence of internal audit departments as the weakest factor. Lack of training, inexperienced staff and quick turnover of internal audit personnel were the main problems affecting the competence of internal audit departments.

In the area of work performance and monitoring of internal controls, the study found that the respondents were satisfied to some extent with the work performance and monitoring of internal controls procedures, but some banks reported shortages in their staff that may affect the banks' performance.

The study also found that the external auditors were not relying heavily on the work of internal auditors in Sudanese banks; furthermore, the cost of audits has no relationship with the reliance decision on the work of internal auditors.

In spite of the above results, it can be argued that the internal audit function in Sudanese banks is an indispensable part of quality assurance, internal control and performance management.

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APPENDIX 1 A

A QUESTIONNAIRE ON INTERNAL AUDITING IN SUDANESE BANKS

Dear respondent

I am currently engaged in research with Liverpool John Moores University, UK. The aim of the research is to evaluate the strength of internal audit function in Sudanese banks. The attached questionnaire is the main part of the study and I would be very grateful of your cooperation.

The questionnaire seeks answers from your own experiences; therefore, your answers are very important to the success of this study. Your name and responses to the questionnaire will be completely confidential. At the conclusion of this research, a copy of the results summary will be sent to you.

Thanks for your cooperation

Yours faithfully,

Obeid Ahmed
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SECTION ONE: GENERAL INFORMATION

Please answer by filling in the blank or ticking as appropriate:

1- Please tick to indicate your gender:
a) Male ( ) b) Female ( )

2- Please tick one answer to indicate your highest education level achieved:
a) High school or less ( ) b) First university degree ( )
c) Postgraduate Diploma ( ) d) Masters and above ( )
e) Professional Certificate ( ), please specify,________________

3- Are you an:
a) Internal auditor ( ) b) External auditor ( )

4- If you are an external auditor, please indicate your sector:
a) Private audit firm ( ) b) General Auditor Office ( )

5) Please tick one answer to indicate experience in auditing:
a) 2 years or less ( ) b) 3 to 5 years ( ) c) 6 to 10 years ( )
d) 11 to 20 years ( ) e) 21 years and above ( )

If you are not a bank internal auditor, please proceed to **section two:**

6- Please tick one answer to indicate your experience as a bank internal auditor:
a) 2 years or less ( ) b) 3 to 5 years ( ) c) 6 to 10 years ( )
d) 11 to 20 years ( ) e) 21 years and above ( )

7- Please indicate the number of branches covered by the internal audit department:
a) Less than 5 branches ( ) b) 6 to 10 branches ( )
c) 11 to 15 branches ( ) d) 16 to 20 branches ( )
e) 21 to 30 branches ( ) f) More than 30 branches ( )

8- Who decides what items will be included in your annual internal auditing plan of the bank? You can select more than one answer:
a) The general manager ( )
b) The board of directors ( )
c) The director of internal auditing ( )
4) Others ( )
Please specify

9- Please indicate the number of internal audit department staff at the bank:
a) Less than 5 internal auditors ( ) b) 6 to 10 internal auditors ( )
c) 11 to 15 internal auditors ( ) d) More than 16 internal auditors ( )

10- Has the internal auditing staff been increased during the last two years;
( ) Yes
( ) No,
if yes, by how many? ______________

SECTION TWO: ACTIVITIES RELATED TO EVALUATION OF INTERNAL AUDIT FUNCTION AND RELIANCE DECISION OF EXTERNAL AUDITORS.

PART ONE: Views about independence and objectivity of internal auditors:

Questions in this part relate to your personal views about the independence and objectivity of internal auditors in Sudanese banks. Please indicate the extent to which you agree or disagree with the following statements regarding the objectivity of internal audit department in the bank. (Please tick only one response per statement):

The Statement	Strongly Agree	Agree	Neutral	Disagree	Strongly disagree
1- I think the organisational status of the internal audit department is adequate for the fulfilment of its goals.	5	4	3	2	1
2- I believe, sometimes, the internal auditing staff faces interference by the management while they conduct their work.	5	4	3	2	1
3- I believe the internal auditing staff is allowed to review all departments in the bank.	5	4	3	2	1
4- The board of directors enhance the objectivity of internal auditors.	5	4	3	2	1
5- In my opinion, the internal audit director allows his staff to review a department in which one of his staff worked before in a non-audit capacity.	5	4	3	2	1
6- Conflict of interest is rarely present in the work of internal auditors.	5	4	3	2	1
7- The internal audit department is under the authority of executive management.	5	4	3	2	1
8- The board of directors (audit committee) approve the appointment of internal audit department directors.	5	4	3	2	1
9- The board of directors (audit committee) approve the removal of internal audit department directors.	5	4	3	2	1
10- The internal auditors report to the board of directors between 3 to 6 times a year.	5	4	3	2	1
11- The internal audit department is ranked at the same level as the managing director.	5	4	3	2	1
12- The internal audit department is directly reports to the board of directors (audit committee if applicable).	5	4	3	2	1
13- In general, internal audit staff has access to all information considered pertinent.	5	4	3	2	1
14- In general, internal audit staff has free access to all employees in the bank.	5	4	3	2	1

PART TWO: Views about the competence of internal auditors:

Questions in this part relate to your personal views about the situation of competence in Sudanese banks particularly. Please indicate the extent to which you agree or disagree with the following statements regarding the competence of internal audit department in the bank. (Please tick only one response per statement):

The Statement	Strongly Agree	Agree	Neutral	Disagree	Strongly disagree
1- I think the internal audit staff possess the knowledge needed to carry out their responsibilities.	5	4	3	2	1
2- In my opinion, the internal audit staff possess the skills needed to carry out their responsibilities.	5	4	3	2	1
3- The bank management encourages the internal audit staff to continually develop.	5	4	3	2	1
4- Some of the internal auditing staff in the bank have obtained a professional certification in auditing.	5	4	3	2	1
5- Some internal auditing staff in the bank are Certified Internal Auditors.	5	4	3	2	1
6- In my opinion the bank management only appoints internal auditors with accounting or auditing qualifications as internal auditors.	5	4	3	2	1
7- I think internal audit department staff are not subject to regular indoor training in auditing.	5	4	3	2	1
8- I feel not all of the internal auditing staff in the bank have experience in the audit profession.	5	4	3	2	1
9- I believe all of internal audit department staff in the bank have experience in internal auditing.	5	4	3	2	1
10- I am able to say internal auditors maintain satisfactory relationships with other employees in the bank.	5	4	3	2	1
11- The board of directors is controlling the competence of internal audit departments.	5	4	3	2	1
12- I am able to say the internal audit staff has the necessary professional competence.	5	4	3	2	1
13- The bank management only appoints experienced internal auditors.	5	4	3	2	1
14- Allocating employees from other departments to work as internal auditors will affect the professional competence of the department.	5	4	3	2	1

PART THREE: Views about the work performance of internal auditors and monitoring of the internal controls:

Questions in this part relate to your personal views about the work performance of internal auditors in Sudanese banks. Please indicate the extent to which you agree or disagree with the following statements regarding the work performance of the internal audit department and monitoring of the internal controls in the bank. (Pleas tick only one response per statement):

The Statement	Strongly Agree	Agree	Neutral	Disagree	Strongly disagree
1- I can say the director of internal audit department is supervising his/her staff through defined system of responsibilities.	5	4	3	2	1
2- I believe the number of internal auditors in the bank is not sufficient when it is compared with the number of branches they audit.	5	4	3	2	1
3- There are audit schedules for the bank branches/departments audits.	5	4	3	2	1
4- I really feel the internal audit department develops appropriate audit plans for established audit objectives.	5	4	3	2	1
5- I feel the bank internal auditors examine the reliability and integrity of information.	5	4	3	2	1
6- I believe the internal auditors review the adequacy of risk management on a regular basis.	5	4	3	2	1
7- I am confident that the internal auditing staff checks whether the established operating systems in the bank ensure compliance with policies and regulations.	5	4	3	2	1
8- I believe the internal auditors review operations to ascertain whether results are consistent with established objectives.	5	4	3	2	1
9- There are corrective actions on the findings of the internal auditors.	5	4	3	2	1
10- The internal audit department do not apply the same rules for all levels of the bank.	5	4	3	2	1
11- I can say the director of the internal audit department regularly checks the quality of working papers.	5	4	3	2	1
12- The internal auditing staff evaluate the adequacy of the bank internal control system.	5	4	3	2	1
13-In my opinion the internal audit staff review the systems used for safeguarding the bank assets.	5	4	3	2	1

14- The internal audit department in the bank monitors the financial controls to ensure the reliability of financial reporting.	5	4	3	2	1
15- I feel the internal audit department in the bank checks the financial controls are implemented properly.	5	4	3	2	1
16- There is a regular evaluation of risk management procedures.	5	4	3	2	1
17- In my opinion the internal auditing staff understands the nature of operational controls.	5	4	3	2	1
18- The internal audit department in the bank do not ensure compliance controls aim to ensure compliance with laws and regulations.	5	4	3	2	1
19- I am able to say the internal audit department in the bank is responsible for the evaluation of internal control system.	5	4	3	2	1

PART FOUR: Views about the external auditors regarding the reliance decision on the work of internal auditors.

Only external auditors should complete this part.

The Statement	Strongly agree	Agree	Neutral	Disagree	Strongly disagree
1- As external auditor, I believe the internal audit department in the banks reports to the highest level in the bank.	5	4	3	2	1
2- As external auditor, I can say the scope of the internal audit function in banks is complete and accurate.	5	4	3	2	1
3- I can say the director of the internal audit department can control and supervise his staff	5	4	3	2	1
4- I can say the internal audit staff has free access to the bank records.	5	4	3	2	1
5- I believe the internal audit staff has free access to other employees in the bank.	5	4	3	2	1
6- I can rely on the quality of internal audit programmes.	5	4	3	2	1
7- I can say the internal audit department keeps reliable standards of working papers.	5	4	3	2	1
8- I think the internal audit department is not empowered to cover all the activities of the bank.	5	4	3	2	1
9- The response to internal audit reports by the management is reasonable.	5	4	3	2	1
10- I can place reliability on the internal auditor's knowledge of the bank operations.	5	4	3	2	1
11- I can rely on the internal auditor's knowledge of bank procedures.	5	4	3	2	1
12- In my opinion knowledge of new audit techniques by internal auditors is not satisfactory.	5	4	3	2	1
13- I believe internal auditing staff are subject to continuing education programmes specified for internal auditors	5	4	3	2	1
14- In my opinion the level of compliance between the work of internal auditors and the standards of professional practice of internal auditing is low.	5	4	3	2	1

15- I feel the responsibilities of internal auditors are assigned by reliable written policy.	5	4	3	2	1
16- In general, I am relying on the internal auditors objectivity.	5	4	3	2	1
17- In general, I am relying on the professional competence of internal auditors	5	4	3	2	1
18- In general, I am relying on the work performance of internal auditors.	5	4	3	2	1
19- In general, I am relying on the internal audit staff ability to monitor the internal controls.	5	4	3	2	1
20- I am relying on the work of internal auditors to reduce the cost of external audit.	5	4	3	2	1
21- Availability of the internal audit function in the bank reduces the cost of external audit.	5	4	3	2	1
22- I used to assign specific audit work to the internal auditors to reduce the cost of external audit.	5	4	3	2	1

- As an external auditor, please rate the following items according to its importance in using the work of internal auditors in Sudanese banks (1 – 4). (1 indicates highest impression while 4 indicates the tail end in the rating).

Item	**Rating**
Independence	
Competence	
Work performance	
Monitoring of internal control system	

Appendix 1 B

الأخ المحترم

السلام عليكم ورحمة الله وبركاته

يمثل الاستبيان بحث لنيل درجة الدكتوراه من جامعة ليفر بول جون مورس (Liverpool John Moores University) بالمملكة المتحدة . أنني أقوم بدراسة وتقييم إدارة المراجعة الداخلية ودرجة الاعتماد المراجع الخارجي على عمل المراجعين الداخليين في المصارف السودانية.
كما أفيدكم بأنه سيتم استخدام صحيفة الاستبيان هذه لغرض جمع البيانات.عليه فإنني أتشرف بدعوة سيادتكم للمشاركة في هذا البحث وذلك بالإجابة علي الأسئلة التي تتضمنها أجزانه الثلاثة وذلك من خلال خبرتكم. هذا وقد تم تخصيص خانة لتدوين أية ملاحظات أو إضافات قد ترون أنها قد تسهم في إثراء هذا البحث.
وأؤكد لكم أن إجاباتكم وملاحظاتكم سوف تستخدم لأغراض البحث العلمي فقط.

وأخير لا يسعني إلا أن أشكركم جزيل الشكر مقدراً لكم حسن تعاونكم.

عبيد أحمد عبيد
طالب دكتوراه
جامعة ليفر بول جون مورس

استبيان لتقييم إدارة المراجعة الداخلية ودرجة الاعتماد المراجع الخارجي على عمل المراجعين الداخليين في المصارف السودانية.

القسم الأول : - الرجاء وضع علامة (✓) في المكان المخصص

1- النوع: أ) ذكر ☐ ب) أنثى ☐

2- الفئة العمرية: أ) أقل من 25 سنة ☐ ب) من 250 إلى 35 سنة ☐
ج) من 36 إلى 45 سنة ☐ د) 46 أو أكثر ☐

3- أعلى مستوى علمي وصلت إليه:
أ) المستوى الثانوي ☐ ب) بكالوريوس ☐
ج) دبلوم عالي ☐ د) ماجستير أو دكتوراه ☐
هـ) شهادة مهنية في المحاسبة ☐
الرجاء تحديد ذلك..

4-هل أنت :- أ) مراجع داخلي ☐ ب) مراجع خارجي ☐

5- إذا كنت مراجعا خارجيا فأي قطاع تتبع :-
أ) مكتب خاص ☐ ب) المراجع العام ☐

6- الخبرة في مجال المراجعة
أ) أقل من سنتين ☐ ب) من 3 إلى 5 سنوات ☐
ج) من 6 إلى 10 سنوات ☐ د) من 11 إلى 20 سنة ☐
هـ) أكثر من 20 سنة ☐

إذا لم تكن وظيفتك مراجعا داخليا في أحد المصارف. الرجاء القسم الثاني مباشرة.

7- ما هو عدد الأعوام التي قضيتها كمراجع داخلي في المصارف
أ) أقل من سنتين ☐ ب) من 3 الى 5 سنوات ☐
ج) من 6 الى 10 سنوات ☐ د) من 11 الى 20 سنة ☐
هـ) أكثر من 20 سنة ☐

8- ما هو عدد الفروع التي تراجع بواسطة إدارة المراجعة الداخلية
أ) أقل من 5 فروع ☐ ب) من 6 إلي 10 فروع ☐
ج) من 11إلى 15 فرعا ☐ د) من 16 إلى 20 فرعا ☐
هـ) من 21 إلى 30 فرعا ☐ و) أكثر من 30 فرعا ☐

9- من هو الذي يقرر خطة المراجعة الداخلية السنوية في المصرف ؟مكنك اختيار أكثر من إجابة :
أ) المدير العام ☐ ب) مجلس الإدارة ☐
ج) مدير إدارة المراجعة الداخلية ☐ د) أخري ☐
من فضلك حدد ....

10- كم عدد العاملين بإدارة المراجعة الداخلية خلال العام الماضي؟
أ) أقل من 5 مراجعا ☐ ب) من 6 إلي 10 مراجعا ☐
ج) من 11إلى 15 مراجعا ☐ د) أكثر من 16 مراجعا ☐

11- هل حدثت زيادة في عدد العاملين بإدارة المراجعة الداخلية في المصرف خلال العامين
أ) نعـــــم ☐ ب) لا ☐
لو كانت الإجابة بنعم فكم كانت الزيادة ....

القسم الثاني: تقييم أنشطة المراجعة الداخلية ودرجة اعتماد المراجع الخارجي عليها:

الجزء الأول: الاتجاهات الخاصة باستقلالية وموضوعية المراجعين الداخليين:

الأسئلة في هذا الجزء تتعلق بالاتجاهات الخاصة باستقلالية وموضوعية المراجعين الداخليين بالمصارف. يرجى تحديد درجة موافقتك فيما يختص باستقلالية وموضوعية المراجعين الداخليين. (يرجى وضع دائرة حول إجابة واحدة فقط لكل فقرة)

الرقم	العبارة	موافق بشدة	موافق	محايد	غير موافق	غير موافق بشدة
.1	في اعتقادي الوضع التنظيمي لإدارة المراجعة الداخلية بالمصرف مناسب لكي تقوم بأهدافها.	5	4	3	2	1
.2	اعتقد أن المراجعين الداخليين يواجهون تداخلاً في أعمالهم	5	4	3	2	1
.3	اعتقادي أن المراجعين الداخليين في المصرف يستطيعون مراجعة كل إدارات وأقسام المصرف.	5	4	3	2	1
.4	مجلس الإدارة يدعم استقلالية وموضوعية المراجعين الداخليين بصورة واضحة.	5	4	3	2	1
.5	اعتقد أن مدير إدارة المراجعة الداخلية يسمح المراجعين الداخليين بمراجعة الإدارات الأخرى التي عملوا فيها من قبل.	5	4	3	2	1
.6	إن عمل المراجعين الداخليين نادراً ما يواجه تضارب المصالح (conflict of interest) أثناء أدائهم لمهامهم.	5	4	3	2	1
.7	الهرم التنظيمي للمصرف يضع إدارة المراجعة الداخلية تحت إشراف الإدارة التنفيذية مباشرة.	5	4	3	2	1
.8	مجلس الإدارة بالمصرف هو الجهة الوحيدة التي لها حق تعيين مدير إدارة المراجعة الداخلية.	5	4	3	2	1
.9	مجلس الإدارة بالمصرف هو الجهة الوحيدة آلتي لها حق عزل مدير إدارة المراجعة الداخلية	5	4	3	2	1
.10	تقوم إدارة المراجعة الداخلية بالمصرف برفع تقاريرها إلى مجلس الإدارة حوالي 3- 6مرات خلال العام.	5	4	3	2	1
.11	وضعية إدارة المراجعة الداخلية بالمصرف في مستوى مساوي للمير التنفيدى للمصرف	5	4	3	2	1
.12	إدارة المراجعة الداخلية بالمصرف تقوم برفع تقريرها مباشرة إلى مجلس الإدارة (لجنة المراجعة أن وجدت)	5	4	3	2	1

الرقم	العبـــــــارة	موافق بشدة	موافق	محايد	غير موافق	غير موافق بشدة
.13	بصفة عامة المراجعين الداخليين بالمصرف لهم كامل الحرية للوصول إلى مصادر المعلومات.	5	4	3	2	1
.14	بصفة عامة المراجعين الداخليين بالمصرف لهم الحرية الاتصال بالموظفين الآخرين العاملين بالمصرف.	5	4	3	2	1

الجزء الثاني: الاتجاهات التي تتعلق بكفاءة المراجعين الداخليين.

الأسئلة في هذا الجزء تتعلق باتجاهاتك بخصوص كفاءة المراجعين الداخليين بالمصارف. يرجى تحديد درجة موافقتك فيما يختص بالكفاءة المهنية لادارة المراجعة الداخلية المصرف. (يرجى وضع دائرة حول إجابة واحدة فقط لكل فقرة)

الرقم	العبـــــــارة	موافق بشدة	موافق	محايد	غير موافق	غير موافق بشدة
.1	في اعتقادي إن إدارة المراجعة الداخلية تمتلك الدراية والمعرفة اللازمة لكي تؤدي عملها.	5	4	3	2	1
.2	في رأيي، أن العاملين بإدارة المراجعة الداخلية بالمصرف يملكون المهارات اللازمة لكي يؤدوا مهامهم.	5	4	3	2	1
.3	غدارة المصرف تشجع على المراجعين الداخليين لمواصلة تعليمهم العالي.	5	4	3	2	1
.4	في الإدارة التي اعمل فيها يحمل المراجعون الداخليون مؤهلا عاليا" في مهنة المراجعة مثلا(زمالة المحاسبيين القانونيين السودانية أو البريطانية).	5	4	3	2	1
.5	شفي الإدارة التي اعمل فيها يحمل المراجعون الداخليون مؤهلا عاليا" في المراجعة الداخلية مثلا(معاهد المراجعين الداخليين).	5	4	3	2	1
.6	شفي اعتقادي أن إدارة المصرف تعين فقط المراجعين الداخليين ممن يحملون مؤهلا في المحاسبة أو المراجعة.	5	4	3	2	1
.7	العاملون بإدارة المراجعة الداخلية لا يخضعون وبصورة منتظمة إلى دورات تدريبية في مجال المراجعة الداخلية.	5	4	3	2	1
.8	أشعر بأن ليس كل العاملين بأداة المراجعة الداخلية لهم خبرة كافية في مجال المراجعة الداخلية.	5	4	3	2	1
.9	أعتقد بأن ليس كل العاملين بإدارة المراجعة الداخلية لهم خبرة كافية في مجال المراجعة الداخلية.	5	4	3	2	1
.10	يمكنني القول بأن المراجعين الداخليين يحتفظون بعلاقات معقولة مع الموظفين الآخرين بالمصرف.	5	4	3	2	1

الرقم	العـــــــــــبارة	موافق بشدة	موافق	محايد	غير موافق	غير موافق بشدة
.11	مجلس الإدارة بالمصرف يستطيع التحكم في الكفاءة المهنية للمراجعين الداخليين بالمصرف.	5	4	3	2	1
.12	أستطيع القول بأن المراجعين الداخليين يملكون الكفاءة المهنية اللازمة.	5	4	3	2	1
.13	إدارة المصرف تقوم بتعيين مراجعتين داخليين من ذوي الخبرة فقط.	5	4	3	2	1
.14	في اعتقادي أن تعيين موظفين من إدارات أخرى بالمصرف ليعملوا كمراجعين داخليين لا يؤثر سلباً على كفاءة وعمل إدارة المراجعة الداخلية.	5	4	3	2	1

الجزء الثالث: الاتجاهات التي تتعلق بأداء ومقدرة المراجعين الداخليين لرقابة أنظمة الرقابة الداخلية:

الأسئلة في هذا الجزء تتعلق باتجاهاتك بخصوص بأداء ومقدرة المراجعين الداخليين لرقابة أنظمة الرقابة الداخلية. يرجى تحديد درجة موافقتك فيما يختص بأداء ومقدرة المراجعين الداخليين لرقابة أنظمة الرقابة الداخلية. (يرجى وضع دائرة حول إجابة واحدة فقط لكل فقرة)

الرقم	العـــــــــــبارة	موافق بشدة	موافق	محايد	غير موافق	غير موافق بشدة
.1	أستطيع القول بأن مدير إدارة المراجعة الداخلية بالمصرف له القدرة على الإشراف على العاملين بالأداة وذلك من خلال نظام داخلي معروف.	5	4	3	2	1
.2	في اعتقادي أن عدد المراجعين الداخليين بالمصرف ليس كافيا مقارنة بعدد العاملين بالإدارات والفروع التي يراجعونها.	5	4	3	2	1
.3	لدي إدارة المراجعة الداخلية جدول زمني معين لمراجعة إدارات / فروع المصرف.	5	4	3	2	1
.4	أشعر بأن إدارة المراجعة الداخلية تضع خططاً مناسبة للمراجعة لمقابلة الأهداف الموضوعية.	5	4	3	2	1

الرقم	العبارة	موافق بشدة	موافق	محايد	غير موافق	غير موافق بشدة
.5	.أشعر بأن المراجعين الداخليين يقومون بالتحقق من أن المعلومات المتاحة موثوقا بها وذات موضوعية.	5	4	3	2	1
.6	إدارة المراجعة الداخلية بالمصرف تقوم بالفحص المناسب للحد من مخاطر الإدارة (Risk Management)	5	4	3	2	1
.7	أنا على ثقة بأن المراجعين الداخليين يقومون بفحص ما إذا كانت الأنظمة العاملة بالمصرف متوافقة مع السياسات واللوائح الخاصة بالمصرف.	5	4	3	2	1
.8	أعتقد بأن المراجعين الداخليين يقومون بفحص البرامج للتأكد من أن نتائجها متوافقة مع الأهداف المرسومة مسبقاً.	5	4	3	2	1
.9	إدارة المراجعة الداخلية تقوم بتصحيح الأخطاء بصورة مرضية.	5	4	3	2	1
.10	لا تقوم إدارة المراجعة الداخلية بتطبيق نفس الإجراءات واللوائح لكل مستويات المصرف الإدارية.	5	4	3	2	1
.11	أستطيع القول بأن مدير إدارة المراجعة الداخلية يقوم بفحص نوعية (Quality) أوراق عمل المراجعة المستخدمة بواسطة إدارته.	5	4	3	2	1
.12	العاملون بإدارة المراجعة الداخلية يقومون بتقييم نظام الرقابة الداخلية.	5	4	3	2	1
.13	في اعتقادي العاملين بإدارة المراجعة الداخلية يقومون بمراجعة أنظمة الرقابة الداخلية المطبقة للتأكد من حماية للأصول من التلف.	5	4	3	2	1
.14	إدارة المراجعة الداخلية للمصرف تقوم بالتحقق من إجراءات الرقابة المالية تهدف إلى موثوقية التقارير المالية.	5	4	3	2	1
.15	أشعر بأن إدارة المراجعة الداخلية تعمل للتأكد من أن أنظمة الرقابة المالية تعمل بصورة جيدة.	5	4	3	2	1
.16	إدارة المراجعة الداخلية تقوم وبصورة منتظمة بتقييم إجراءات الحد من مخاطر الإدارة (Risk Management)	5	4	3	2	1
.17	في رأيي أن العاملين بإدارة المراجعة الداخلية يدركون طبيعة أنظمة الرقابة (Operational Controls)	5	4	3	2	1
.18	إدارة المراجعة الداخلية للمصرف لا تقوم بالتحقق من أن إجراءات الرقابة الداخلية تهدف إلى أنها تتماشى مع السياسات الموضوع .	5	4	3	2	1
.19	بصفة عامة يمكنني القول بأن المراجعة الداخلية مسؤولة وبشدة عن تقييم أنظمة الرقابة الداخلية.	5	4	3	2	1

الجزء الرابع : الاتجاهات التي تتعلق بدرجة اعتماد المراجعين الخارجيين على عمل ووظائف إدارة المراجعة الداخلية ودرجة الاعتماد عليها.

ملحوظة:

هذا الجزء مخصص للمراجعين الخارجيين فقط.

الأسئلة في هذا الجزء تتعلق باتجاهات نظرك كمراجع خارجي فى درجة الاعتماد على عمل وأداء إدارات المراجعة الداخلية بالمصارف السودانية. يرجى تحديد درجة موافقتك للعبارة التالية. (يرجى وضع دائرة حول إجابة واحدة فقط لكل فقرة)

الرقم	العبارة	موافق بشدة	موافق	محايد	غير موافق	غير موافق بشدة
.1	كمراجع خارجي للمصرف، اعتقد أن إدارة المراجعة الداخلية ترفع تقريرها الدورية غلى أعلى سلطة بالمصرف.	5	4	3	2	1
.2	كمراجع خارج أري أن نطاق وظائف المراجعة الداخلية بالمصرف مكتمل ودقيق.	5	4	3	2	1
.3	أستطيع القول بأن مدير إدارة المراجعة الداخلية يستطيع الإشراف على العاملين بالإدارة بصورة مرضية	5	4	3	2	1
.4	أستطيع القول بأن العاملين بإدارة المراجعة الداخلية لهم كامل الحرية للوصول إلى مصادر المعلومات بالمصرف.	5	4	3	2	1
.5	في اعتقادي أن العاملين بإدارة المراجعة الداخلية لهم كامل الحرية للوصول إلى كل الموظفين بكل الأقسام في المصرف.	5	4	3	2	1
.6	كمراجع خارجي، أستطيع الاعتماد على نوعية (Quality) برامج المراجعة المستخدمة بواسطة المراجعين الداخليين.	5	4	3	2	1
.7	أستطيع القول بأن إدارة المراجعة الداخلية تحتفظ بمستوي جيد من أوراق عمل المراجعة.	5	4	3	2	1
.8	في اعتقادي أن نشاط إدارة المراجعة الداخلية لا يغطى كافة أنشطة المصرف .	5	4	3	2	1
.9	درجة الاستجابة لتقارير المراجعة الداخلية بواسطة الإدارة تعد مرضية.	5	4	3	2	1
.10	أستطيع الاعتماد على معرفة المراجعين الداخليين فيما يختص بالعمليات المصرفية.	5	4	3	2	1

الرقم	العبـــــــــــارة	موافق بشدة	موافق	محايد	غير موافق	غير موافق بشدة
.11	. أستطيع الاعتماد على معرفة المراجعين الداخليين بالإجراءات المصرفية.	5	4	3	2	1
.12	في رأيي أن كل التقنيات الحديثة في مهنة المراجعة لا تعد معروفة بواسطة المراجعين الداخليين.	5	4	3	2	1
.13	أعتقد بأن كل العاملين بإدارة المراجعة الداخلية يخضعون لدورات تدريبية في مجال المراجعة الداخلية.	5	4	3	2	1
.14	في رأيي أن درجة التوافق بين عمل المراجعين الداخليين ومعايير المراجعة الداخلية غير مرضية .	5	4	3	2	1
.15	أعتقد بأن مهام ومسؤوليات إدارة المراجعة الداخلية تكون مكتوبة في دليل واضح.	5	4	3	2	1
.16	بصفة عامة وكمراجع خارجي فأنى أعتمد على موضوعية واستقلالية المراجعة الداخلية.	5	4	3	2	1
.17	بصفة عامة وكمراجع خارجي فإنني أعتمد على الكفاءة المهنية للعاملين في إدارة المراجعة الداخلية .	5	4	3	2	1
.18	بصفة عامة وكمراجع خارجي فإنني أعتبر أداء المراجعة الداخلية مرضيا بشكل يجعل الاعتماد عليها ممكنا	5	4	3	2	1
.19	بصفة عامة وكمراجع خارجي فإنني أعتمد على إدارة المراجعة الداخلية بالمصرف في عملية الرقابة على أنظمة الرقابة الداخلية.	5	4	3	2	1
.20	كمراجع خارجي فإنني أعتمد على عمل المراجع الداخلي لكي أقلل تكلفة عملية المراجعة.	5	4	3	2	1
.21	أن وجود وظيفة المراجعة الداخلية بالمصرف يقلل من تكلفة المراجعة الخارجية .	5	4	3	2	1
.22	كمراجع خارجي فأنني أوكل بعض مهام المراجعة الخارجية لكي يقوم بها المراجعون الداخليون لكي أقلل من تكلفة المراجعة الخارجية.	5	4	3	2	1

*كمراجع خارجي للمصرف، فإن نسبة اعتمادي على عمل المراجع الداخلي تكون:

أ) أقل من 30% ☐ ب) من 30% إلى 50% ☐

ج) من 50% إلى 70% ☐ د) من 70% فأكثر ☐

إذا كانت لديك أية ملاحظات أو اقتراحات ترى أنها قد تتلائم مع الموضوعات التي تم عرضها في هذا الاستبيان، يرجى التكرم بتدوينها أدناه.

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Appendix 2:

2.1 Study Cronbach's Alpha:

Reliability Statistics "objectivity"

Cronbach's Alpha	N of Items
.753	14

Item-Total Statistics "objectivity"

	Scale Mean if Item Deleted	Scale Variance if Item Deleted	Corrected Item-Total Correlation	Cronbach's Alpha if Item Deleted
Q2a1	36.1469	44.506	.637	.710
Q2a2	36.5804	46.992	.361	.739
Q2a3	35.9021	46.173	.451	.729
Q2a4	36.4476	43.728	.602	.711
Q2a5	37.3916	51.240	.158	.757
Q2a6	36.5734	48.049	.333	.742
Q2a7	37.9091	54.154	-.038	.773
Q2a8	37.6434	49.076	.319	.743
Q2a9	37.6853	47.513	.431	.732
Q2a10	37.0909	45.661	.426	.732
Q2a11	37.2448	49.172	.255	.750
Q2a12	37.2378	47.506	.369	.738
Q2a13	35.6573	47.058	.474	.728
Q2a14	35.6713	49.617	.305	.744

Reliability Statistics "competence"

Cronbach's Alpha	N of Items
.834	14

Item-Total Statistics "competence"

	Scale Mean if Item Deleted	Scale Variance if Item Deleted	Corrected Item-Total Correlation	Cronbach's Alpha if Item Deleted
Q2b1	35.1538	51.540	.614	.814
Q2b2	35.2727	51.172	.632	.812
Q2b3	35.9860	53.183	.427	.827
Q2b4	36.9650	55.597	.489	.824
Q2b5	37.0140	56.366	.437	.827
Q2b6	36.6503	55.835	.308	.834
Q2b7	36.2098	55.744	.308	.834
Q2b8	36.1259	51.463	.591	.815
Q2b9	36.0280	51.999	.623	.814
Q2b10	34.9231	57.480	.247	.836
Q2b11	36.1958	55.046	.286	.838
Q2b12	35.6364	50.078	.654	.810
Q2b13	36.0490	51.779	.520	.820
Q2b14	35.6084	51.944	.483	.823

Reliability Statistics "work performance and monitoring of internal controls"

Cronbach's Alpha	N of Items
.918	19

Item-Total Statistics "work performance and monitoring of internal controls"

	Scale Mean if Item Deleted	Scale Variance if Item Deleted	Corrected Item-Total Correlation	Cronbach's Alpha if Item Deleted
Q2c1	63.9371	128.707	.542	.915
Q2c2	65.3916	136.437	.105	.927
Q2c3	64.1818	128.755	.503	.916
Q2c4	64.2587	122.827	.717	.911
Q2c5	64.0699	125.868	.675	.912
Q2c6	64.3916	123.888	.630	.913
Q2c7	64.2587	123.940	.697	.911
Q2c8	64.4825	123.251	.747	.910
Q2c9	64.1958	125.778	.677	.912
Q2c10	64.8811	132.697	.265	.922
Q2c11	64.4685	124.969	.591	.914
Q2c12	64.3147	124.006	.657	.912
Q2c13	64.2028	124.670	.733	.911
Q2c14	64.2937	124.110	.725	.911
Q2c15	64.2448	124.890	.733	.911
Q2c16	64.6014	122.171	.735	.910
Q2c17	64.3077	125.102	.719	.911
Q2c18	64.4685	130.110	.439	.918
Q2c19	63.9161	133.063	.345	.919

Reliability Statistics "external auditors' reliance decision on the work of internal auditors"

Cronbach's Alpha	N of Items
.864	22

Item-Total Statistics "external auditors' reliance decision on the work of internal auditors"

	Scale Mean if Item Deleted	Scale Variance if Item Deleted	Corrected Item-Total Correlation	Cronbach's Alpha if Item Deleted
Q2d1	60.5652	102.162	.588	.853
Q2d2	60.5652	106.118	.552	.855
Q2d3	59.7609	103.519	.673	.851
Q2d4	59.9565	103.954	.613	.853
Q2d5	59.9130	106.037	.546	.855
Q2d6	60.6304	107.838	.482	.858
Q2d7	60.3478	103.032	.705	.850
Q2d8	60.6087	111.132	.271	.865
Q2d9	60.3478	107.921	.461	.858
Q2d10	60.1304	107.627	.455	.858
Q2d11	60.1739	108.147	.438	.859
Q2d12	61.0217	113.577	.229	.865
Q2d13	60.5217	108.077	.519	.857
Q2d14	60.8043	111.983	.356	.862
Q2d15	59.7826	106.841	.411	.860
Q2d16	60.2609	107.486	.444	.859
Q2d17	60.6739	105.380	.549	.855
Q2d18	60.2826	106.074	.621	.853
Q2d19	60.3696	106.016	.526	.856
Q2d20	60.7826	115.685	.061	.872
Q2d21	60.1304	113.805	.150	.869
Q2d22	61.3043	117.016	.016	.871

2.2 Reliability Analysis Pilot Study:

Reliability Statistics "objectivity"

Cronbach's Alpha	N of Items
.618	12

Item-Total Statistics "objectivity"

	Scale Mean if Item Deleted	Scale Variance if Item Deleted	Corrected Item-Total Correlation	Cronbach's Alpha if Item Deleted
Q2a1	33.8108	30.991	.438	.564
Q2a2	33.8649	27.453	.625	.512
Q2a3	33.3243	29.725	.543	.542
Q2a4	33.8919	29.099	.664	.522
Q2a5	34.7838	39.452	-.199	.680
Q2a6	34.1081	30.488	.423	.564
Q2a7	34.9730	38.416	-.130	.668
Q2a8	34.9730	34.583	.144	.620
Q2a9	34.6216	31.742	.309	.588
Q2a10	34.8378	33.584	.235	.603
Q2a11	34.2432	36.800	-.035	.658
Q2a12	33.1351	33.009	.430	.576

Reliability Statistics "competence"

Cronbach's Alpha	N of Items
.676	11

Item-Total Statistics "competence"

	Scale Mean if Item Deleted	Scale Variance if Item Deleted	Corrected Item-Total Correlation	Cronbach's Alpha if Item Deleted
Q2b1	29.7027	23.548	.527	.618
Q2b2	30.7568	25.689	.251	.669
Q2b3	30.8378	26.029	.264	.665
Q2b4	31.2432	25.245	.375	.647
Q2b5	31.4324	25.808	.265	.665
Q2b6	31.4595	25.992	.298	.659
Q2b7	30.7297	25.203	.290	.662
Q2b8	30.1351	22.453	.673	.592
Q2b9	29.8378	24.917	.480	.632
Q2b10	29.7297	27.592	.249	.667
Q2b11	30.3514	26.734	.080	.712

Reliability Statistics "work performance and monitoring of internal controls"

Cronbach's Alpha	N of Items
.901	19

Item-Total Statistics "work performance and monitoring of internal controls"

	Scale Mean if Item Deleted	Scale Variance if Item Deleted	Corrected Item-Total Correlation	Cronbach's Alpha if Item Deleted
Q2c1	64.0000	123.333	.586	.896
Q2c2	65.5135	136.923	-.046	.913
Q2c3	64.3514	124.234	.451	.899
Q2c4	64.1351	124.565	.563	.896
Q2c5	64.1351	123.398	.675	.893
Q2c6	64.7027	117.492	.693	.891
Q2c7	64.2973	118.659	.773	.890
Q2c8	64.4054	124.081	.604	.895
Q2c9	64.1081	122.210	.625	.894
Q2c10	64.9459	133.553	.081	.910
Q2c11	64.2973	125.104	.588	.895
Q2c12	64.3243	120.614	.621	.894
Q2c13	64.0811	119.188	.809	.889
Q2c14	64.2162	122.119	.666	.893
Q2c15	64.2162	123.230	.632	.894
Q2c16	64.8649	123.787	.527	.897
Q2c17	64.3784	119.535	.624	.894
Q2c18	64.5676	125.752	.420	.900
Q2c19	64.4595	120.477	.635	.893

Reliability Statistics "external auditors' reliance decision on the work of internal auditors"

Cronbach's Alpha	N of Items
.841	16

Item-Total Statistics external auditors' reliance decision on the work of internal auditors"

Item-Total Statistics

	Scale Mean if Item Deleted	Scale Variance if Item Deleted	Corrected Item-Total Correlation	Cronbach's Alpha if Item Deleted
Q2d1	44.8235	57.297	.242	.846
Q2d2	44.2353	52.066	.641	.821
Q2d3	43.8235	52.029	.759	.816
Q2d4	43.8824	53.485	.642	.822
Q2d5	44.0588	52.434	.603	.823
Q2d6	43.8235	53.154	.557	.826
Q2d7	44.4706	58.140	.244	.844
Q2d8	44.0588	59.309	.221	.843
Q2d9	43.6471	54.118	.647	.823
Q2d10	44.9412	54.934	.529	.829
Q2d11	45.0588	57.559	.297	.841
Q2d12	44.5294	55.390	.491	.831
Q2d13	44.1765	57.029	.230	.849
Q2d14	44.4118	56.757	.325	.840
Q2d15	44.1765	54.404	.667	.823
Q2d16	44.4118	57.507	.338	.836

Appendix 3

Analysis of Variance
Appendix 3.1
Objectivity of internal audit departments factored by educational level

No	Variable	High school	First degree	Postgrad-uate diploma	Masters and above	Accou nt-ing profess i-onal certific a-te	F Value	Sig.
1	Organisational status	3.750	3.453	3.416	3.800	3.000	1.698	.154
2	Management interference in internal auditing work	3.625	2.960	3.333	3.200	2.924	3.531	.009
3	Freedom to review any area in the bank	3.667	3.840	4.083	3.800	3.000	2.297	.062
4	Board of directors enhancement of internal auditors	3.333	3.067	3.833	3.133	3.059	1.256	.290
5	Internal auditor revision of previous work.	1.958	2.213	2.583	2.533	2.235	1.172	.326
6	Conflict of interest	3.125	3.177	2.583	3.400	2.471	2.345	.058
7	Relationship with executive management	1.541	1.733	1.833	1.933	1.671	.477	.752
8	Appointment of internal auditing directors	2.083	1.813	2.333	2.267	2.118	1.381	.244
9	Removal of internal auditing directors	2.000	1.747	2.417	2.400	2.000	2.266	.065
10	Reporting times in the year	3.125	2.373	2.750	2667	2.177	2.164	.076
11	Position of internal audit department in the organisational structure	3.000	2.267	3.000	2.133	1.824	4.498	.002
12	Reporting level	2.333	2.400	2.750	2.200	2.353	.428	.789
13	Free access to information	4.208	3.920	4.167	4.000	3.706	.811	.520
14	Free access to employees	4.208	3.867	4.167	3.933	3.882	.787	.536

Appendix 3.2

Years of experience and objectivity factored by years of experience in auditing profession.

No	Variable	Less than 2 years	2 to 5 years	6 to 10 years	11 to 20 years	Over 20 years	F Value	Sig.
1	Organisational status	3.867	3.565	3.457	3.423	3.143	1.160	.331
2	Management interference in internal auditing work	3.667	3.196	3.143	2.654	2.619	2.638	.037
3	Freedom to review any area in the bank	4.067	3.848	3.771	3.654	3.238	1.473	.214
4	Board of directors enhancement of internal auditors	3.800	3.087	3.200	3.192	2.905	1.415	.232
5	Internal auditor revision of previous work.	2.200	2.403	2.229	2.346	2.000	.423	.791
6	Conflict of interest	3.667	3.130	2.943	2.923	2.810	1.616	.174
7	Relationship with executive management	1.733	1.696	1.714	1.769	1.714	.026	.999
8	Appointment of internal auditing directors	2.000	1.957	1.800	2.269	2.000	.844	.499
9	Removal of internal auditing directors	1.867	1.957	1.829	2.077	2.000	.264	.901
10	Reporting times in the year	2.733	2.696	2.429	2.577	2.191	.736	.569
11	Position of internal audit department in the organisational structure	3.067	2.326	2.514	2.308	1.905	2.593	.039
12	Reporting level	2.467	2.369	2.314	2.577	2.286	.279	.891
13	Free access to information	3.933	4.022	3.943	4.000	3.905	.070	.991
14	Free access to employees	3.867	3.935	4.086	3.885	3.952	.242	.914

Appendix 3.3

Years of experience in internal auditing and evaluation of objectivity factored by years of experience in internal auditing.

No	Variable	Less than 2 years	2 to 5 years	6 to 10 years	11 and above	F Value	Sig.
1	Organisational status	3.786	3.977	3.682	3.750	.657	.581
2	Management interference in internal auditing work	3.750	3.791	3.636	3.750	.164	.921
3	Freedom to review any area in the bank	2.857	2.861	3.091	2.500	.595	.620
4	Board of directors enhancement of internal auditors	1.928	1.861	1.636	2.000	.773	.512
5	Internal auditor revision of previous work.	1.893	1.744	1.682	2.250	1.089	.358
6	Conflict of interest	2.286	1.861	2.227	2.500	1.463	.230
7	Relationship with executive management	2.500	2.581	2.455	3.250	.630	.598
8	Appointment of internal auditing directors	2.786	3.023	2.546	3.500	1.493	.222
9	Removal of internal auditing directors	2.929	2.884	2.682	3.250	.493	.688
10	Reporting times in the year	4.179	3.674	3.864	4.250	2.013	.118
11	Position of internal audit department in the organisational structure	2.786	2.558	2.364	2.250	.591	.622
12	Reporting level	3.500	3.465	3.091	4.000	1.218	.308
13	Free access to information	3.036	2.861	2.636	2.500	.586	.626
14	Free access to employees	3.679	3.395	3.500	3.250	.436	.728

Appendix 3.4

Number of internal auditors in the internal audit department and evaluation of objectivity.

No	Variable	Less than 5 auditors	6 to 10 auditors	11 to 15 auditors	15 and above auditors	F Value	Sig.
1	Organisational status	3.409	3.822	3.882	3.846	1.137	.338
2	Management interference in internal auditing work	3.091	3.356	3.824	3.923	2.286	.084
3	Freedom to review any area in the bank	3.772	4.067	4.177	4.077	.614	.608
4	Board of directors enhancement of internal auditors	3.364	3.444	3.588	3.000	.720	.543
5	Internal auditor revision of previous work.	2.000	2.289	2.529	2.308	.782	.507
6	Conflict of interest	3.182	3.200	3.235	3.769	.976	.408
7	Relationship with executive management	1.636	1.867	1.647	1.308	1.106	.351
8	Appointment of internal auditing directors	2.318	1.911	2.000	1.692	1.080	.362
9	Removal of internal auditing directors	2.182	1.956	2.000	1.846	.309	.819
10	Reporting times in the year	2.864	2.756	2.529	2.615	.226	.878
11	Position of internal audit department in the organisational structure	2.955	2.667	2.177	1.769	3.508	.018
12	Reporting level	2.273	2.600	2.529	2.154	.708	.549
13	Free access to information	4.364	4.200	4.118	4.077	.442	.724
14	Free access to employees	4.136	4.022	4.118	4.154	.123	.964

Appendix 3. 5
Educational level and evaluation of competence:

No	Variable	High school	First degree	Postgrad-uate diploma	Masters and above	Accounting professional certificate	F Value	Sig.
1	Knowledge to carry out responsibilities	3.917	3.600	3.583	3.467	3.294	1.082	.368
2	Skills to carry out responsibilities	3.833	3.507	3.667	3.200	3.000	2.185	.074
3	Management encouraging internal audit staff to continually develop	2.792	2.787	3.167	2.667	2.471	.732	.571
4	Internal audit staff holding professional certificate in auditing	1.750	1.827	1.750	1.733	1.765	.105	.981
5	Availability of internal auditors with certificate in internal auditing	2.042	1.733	1.500	1.667	1.588	1.862	.121
6	Appointing internal auditors with accounting and auditing qualifications	2.042	2.187	1.917	1.800	2.235	.703	.591
7	Internal auditors training	2.625	2.600	2.333	2.400	2.471	.332	.856
8	Experience in auditing profession	2.958	2.760	2.583	2.067	2.118	3.270	.013
9	Experience in internal auditing	2.958	2.800	2.583	2.333	2.529	1.421	.230
10	Staff professional competence	3.917	3.907	3.667	3.600	2.177	.717	.581
11	Internal audit staff relations with other employees	2.458	2.493	3.083	2.133	3.000	1.902	.113
12	Board of directors manage the competence of internal auditors	3.750	3.160	3.167	2.533	2.529	4.899	.001
13	Appointment of experienced internal auditors	2.542	2.773	2.667	2.667	2.706	.206	.935
14	Allocating employees from other departments to internal audit department	3.625	3.240	2.833	3.133	2.294	4.036	.004

Appendix 3. 6
Years of experience in auditing and evaluation of competence:

No	Variable	Less than 2 years	2 to 5 years	6 to 10 years	11 to 20 years	Over 20 years	F Value	Sig.
1	Knowledge to carry out responsibilities	3.367	3.848	3.400	3.423	3.106	1.737	.145
2	Skills to carry out responsibilities	3.933	3.761	3.229	3.308	3.191	2.988	.021
3	Management encouraging internal audit staff to continually develop	2.867	2.870	2.686	2.731	2.667	.222	.926
4	Internal audit staff holding professional certificate in auditing	1.933	1.957	1.486	1.731	1.905	2.693	.034
5	Availability of internal auditors with certificate in internal auditing	1.867	1.870	1.486	1.731	1.810	1.879	.118
6	Appointing internal auditors with accounting and auditing qualifications	2.467	1.978	1.886	2.231	2.333	1.569	.186
7	Internal auditors training	2.800	2.435	2.429	2.654	2.667	.663	.619
8	Experience in auditing profession	2.800	2.804	2.429	2.731	2.333	1.268	.286
9	Experience in internal auditing	3.200	2.739	2.486	2.885	2.571	1.919	.111
10	Staff professional competence	3.133	3.717	3.771	4.000	3.762	1.064	.377
11	Internal audit staff relations with other employees	2.800	2.609	2.429	2.231	2.905	1.304	.272
12	Board of directors manage the competence of internal auditors	3.667	3.413	2.800	3.115	2.619	3.984	.004
13	Appointment of experienced internal auditors	3.267	2.739	2.486	2.500	2.857	1.676	.159
14	Allocating employees from other departments to internal audit department	3.933	3.326	3.143	3.000	2.381	4.964	.001

Appendix 3. 7
Years of experience in internal auditing and evaluation of competence:

No	Variable	Less than 2 years	2 to 5 years	6 to 10 years	Over 11 years	F Value	Sig.
1	Knowledge to carry out responsibilities	3.786	3.977	3.682	3.750	.657	.581
2	Skills to carry out responsibilities	3.750	3.791	3.636	3.750	.164	.921
3	Management encouraging internal audit staff to continually develop	2.857	2.861	3.091	2.250	.595	.620
4	Internal audit staff holding professional certificate in auditing	1.929	1.861	1.636	2000	.773	.512
5	Availability of internal auditors with certificate in internal auditing	1.893	1.744	1.682	2.250	1.089	.358
6	Appointing internal auditors with accounting and auditing qualifications	2.286	1.861	2.227	2.227	1.463	.230
7	Internal auditors training	2.500	2.581	2.455	2.250	.630	.598
8	Experience in auditing profession	2.786	3.023	2.546	3.500	1.493	.222
9	Experience in internal auditing	2.929	2.884	2.682	2.250	.493	.688
10	Staff professional competence	4.179	3.674	3.864	4.250	2.013	.188
11	Internal audit staff relations with other employees	2.786	2.558	2.364	2.250	.591	.622
12	Board of directors manage the competence of internal auditors	3.500	3.465	2.091	4.000	1.218	.308
13	Appointment of experienced internal auditors	3.036	2.861	2.636	2.500	.586	.626
14	Allocating employees from other departments to internal audit department	3.679	3.395	3.500	3.250	.436	.728

Appendix 3. 8

3.8 the number of internal auditors in the internal audit department and evaluation of competence:

No	Variable	Less than 5 auditors	6 to 10 auditors	11 to 15 auditors	15 and above auditors	F Value	Sig.
1	Knowledge to carry out responsibilities	3.682	3.867	4.000	3.862	.452	.717
2	Skills to carry out responsibilities	3.546	3.844	3.882	3.539	1.058	.371
3	Management encouraging internal audit staff to continually develop	2.636	3.289	2.588	2.308	3.656	.015
4	Internal audit staff holding professional certificate in auditing	1.818	1.889	1.588	2.000	.949	.420
5	Availability of internal auditors with certificate in internal auditing	1.909	1.778	1.765	1.692	.323	.809
6	Appointing internal auditors with accounting and auditing qualifications	2.273	2.222	1.588	2.000	1.984	.122
7	Internal auditors training	2.591	2.711	2.588	1.923	1.825	.148
8	Experience in auditing profession	3.046	2.844	3.235	2.154	2.941	.037
9	Experience in internal auditing	3.091	2.800	2.941	2.614	.756	.521
10	Staff professional competence	4.910	3.844	4.118	3.692	.590	.623
11	Internal audit staff relations with other employees	2.955	2.689	2.353	1.769	3.135	.029
12	Board of directors manage the competence of internal auditors	3.500	3.467	3.353	3.154	.366	.778
13	Appointment of experienced internal auditors	2.682	2.933	3.000	2.615	.482	.969
14	Allocating employees from other departments to internal audit department	3.636	3.422	3.710	3.231	.637	.593

Appendix 3. 9

Educational level and evaluation of work performance of internal audit departments in Sudanese banks:

No	Variable	High school	First degree	Postgrad-uate diploma	Masters and above	Accounting professional certificate	F Value	Sig.
1	Supervision of internal auditing staff	4.458	3.893	4.417	3.866	3.647	3.518	.009
2	Number of internal auditors to the number of branches audited	2.458	2.520	3.000	2.667	2.353	.715	.583
3	Existence of audit schedules for branches/departments audits	4.333	3.773	4.000	3.600	2.823	8.035	.000
4	Existence of appropriate audit plans for established audit objectives	4.333	3.600	3.833	3.600	3.059	4.496	.002
5	Examination of reliability and integrity of information	4.292	3.920	3.500	4.067	3.118	5.613	.000
6	Revision of adequacy of risk management regularly	4.042	3.573	3.250	3.800	2.706	4.609	.002
7	Operating system complied with policies and regulations	4.125	4.125	3.417	3.600	3.059	3.337	.012
8	Operation results are consistent with the bank objectives	3.958	3.413	3.500	3.400	2.941	2.980	.021
9	Corrective actions on the internal auditors finings	4.167	3.720	3.833	3.467	3.412	2.339	.058
10	Applying the same rules for all levels of banks	3.375	3.013	3.083	3.000	2.824	.766	.549
11	Checking working papers quality	4.042	3.600	3.750	3.200	3.177	2.756	.030
12	Checking the adequacy of internal control system.	4.292	3.520	3.833	3.467	3.118	4.166	.003
13	Safeguarding the bank assets	4.125	3.707	3.667	3.667	3.412	1.724	.148
14	Monitoring the financial controls to ensure reliability of financial reporting	4.000	3.653	3.583	3.467	3.294	1.581	.183
15	Checking the financial controls	4.167	3.693	3.583	3.600	3.177	3.373	.011
16	Regular evaluation of risk management procedures	4.125	3.347	3.000	3.133	2.588	6.935	.000
17	Understanding the nature of operational controls	4.208	3.587	3.917	3.267	3.118	5.394	.000

18	Compliance controls are in line with laws and regulations	3.667	3.493	3.500	3.533	3.000	1.369	.248
19	Evaluation of internal controls	4.375	4.040	4.333	3.933	3.294	5.359	.000

Appendix 3.10
Years of experience in auditing and evaluation of work performance of internal audit departments in Sudanese banks:

No	Variable	Less than 2 years	2 to 5 years	6 to 10 years	11 to 20 years	Over 20 years	F Value	Sig.
1	Supervision of internal auditing staff	4.333	4.174	3.914	3.923	3.619	2.131	.080
2	Number of internal auditors to the number of branches audited	2.733	2.522	3.600	2.462	2.476	.186	.945
3	Existence of audit schedules for branches/departments audits	4.133	4.022	3.629	3.808	3.048	5.200	.001
4	Existence of appropriate audit plans for established audit objectives	4.133	3.935	3.686	3.423	3.095	3.735	.006
5	Examination of reliability and integrity of information	4.400	4.000	3.800	3.731	3.476	2.862	.026
6	Revision of adequacy of risk management regularly	3.333	3.783	3.371	3.269	3.095	4.408	.002
7	Operating system complied with policies and regulations	3.933	3.978	3.600	3.500	3.191	2.959	.022
8	Operation results are consistent with the bank objectives	3.800	3.652	3.457	3.231	3.048	2.271	.065
9	Corrective actions on the internal auditors finings	4.067	3.826	3.800	3.385	3.667	1.684	.157
10	Applying the same rules for all levels of banks	3.267	2.913	3.257	3.115	2.810	.951	.436
11	Checking working papers quality	3.867	3.630	3.429	3.154	3.286	1.504	.205
12	Checking the adequacy of internal control system.	4.067	4.044	3.486	3.269	3.048	5.666	.000
13	Safeguarding the bank assets	4.000	4.000	3.743	3.346	3.429	3.263	.014
14	Monitoring the financial controls to ensure reliability of financial reporting	3.867	4.000	3.257	3.615	3.286	4.907	.001
15	Checking the financial controls	3.933	4.000	3.543	3.577	3.238	3.553	.009
16	Regular evaluation of risk management procedures	4.000	3.565	3.171	3.154	2.857	3.798	.006
17	Understanding the nature of operational controls	3.867	4.000	3.486	3.385	3.191	4.568	.002
18	Compliance controls are in line with laws and regulations	3.800	3.630	3.429	3.308	3.143	1.673	.160
19	Evaluation of internal controls	3.933	4.283	4.086	3.885	3.571	3.092	.018

Appendix 3.11

Years of experience in internal auditing and evaluation of work performance of internal audit departments in Sudanese banks:

No	Variable	Less than 2 years	2 to 5 years	6 to 10 years	11 to 20 years	F Value	Sig.
1	Supervision of internal auditing staff	4.250	4.163	4.273	3.250	.131	.941
2	Number of internal auditors to the number of branches audited	2.464	2.861	2.636	2.500	.636	.594
3	Existence of audit schedules for branches/departments audits	4.179	3.861	4.046	4.250	.856	.467
4	Existence of appropriate audit plans for established audit objectives	3.964	4.139	3.956	4.250	.382	.766
5	Examination of reliability and integrity of information	4.392	3.977	4.227	4.000	1.831	.147
6	Revision of adequacy of risk management regularly	4.071	3.861	3.727	3.750	.569	.637
7	Operating system complied with policies and regulations	3.893	4.000	4.182	4.250	.664	.576
8	Operation results are consistent with the bank objectives	3.714	3.721	3.863	3.750	.179	.911
9	Corrective actions on the internal auditors finings	4.000	4.047	4.046	4.250	.146	.932
10	Applying the same rules for all levels of banks	3.107	3.140	3.318	4.000	.967	.412
11	Checking working papers quality	3.857	3.628	3.636	3.750	.304	.822
12	Checking the adequacy of internal control system.	4.143	3.954	3.682	4.000	1.073	.365
13	Safeguarding the bank assets	4.071	4.023	4.000	3.750	.255	.858
14	Monitoring the financial controls to ensure reliability of financial reporting	4.036	3.837	3.773	4.250	.664	.576
15	Checking the financial controls	4.107	3.930	3.909	4.250	.590	.623
16	Regular evaluation of risk management procedures	3.786	3.605	3.682	3.500	.273	.844
17	Understanding the nature of operational controls	4.000	3.907	3.863	4.000	.164	.920

18	Compliance controls are in line with laws and regulations	3.642	3.767	3.636	3.750	.162	.922
19	Evaluation of internal controls	4.143	4.186	4.227	4.250	.063	.979

Appendix 3.12

The numbers of internal auditors in the internal audit department and evaluation of work performance:

No	Variable	Less than 5 auditors	6 to 10 auditors	11 to 15 auditors	15 and above auditors	F Value	Sig.
1	Supervision of internal auditing staff	4.227	4.378	3.941	4.000	1.853	.143
2	Number of internal auditors to the number of branches audited	2.636	2.489	3.235	2.692	1.578	.200
3	Existence of audit schedules for branches/departments audits	4.046	3.978	4.177	3.846	.374	.772
4	Existence of appropriate audit plans for established audit objectives	3.864	4.178	4.118	3.846	.903	.443
5	Examination of reliability and integrity of information	3.955	4.200	4.177	4.308	.720	.543
6	Revision of adequacy of risk management regularly	3.545	4.111	3.647	4.000	2.209	.092
7	Operating system complied with policies and regulations	3.818	4.111	4.824	4.308	1.634	.178
8	Operation results are consistent with the bank objectives	3.727	3.911	3.588	3.462	1.413	.244
9	Corrective actions on the internal auditors finings	4.136	4.067	4.059	4.769	.794	.500
10	Applying the same rules for all levels of banks	3.182	3.200	3.353	3.077	.173	.915
11	Checking working papers quality	3.727	3.778	3.882	3.154	1.473	.227
12	Checking the adequacy of internal control system.	4.091	4.000	3.765	3.769	.626	.600
13	Safeguarding the bank assets	4.091	4.089	3.823	3.923	.762	.518
14	Monitoring the financial controls to ensure reliability of financial reporting	4.818	3.978	3.765	3.923	.316	.814
15	Checking the financial controls	4.000	3.956	3.941	4.153	.273	.845
16	Regular evaluation of risk management procedures	3.727	3.644	3.529	3.670	.340	.796
17	Understanding the nature of operational controls	4.046	4.067	3.824	3.385	3.403	.021

18	Compliance controls are in line with laws and regulations	3.727	3.644	3.710	3.846	.182	.908
19	Evaluation of internal controls	4.227	4.156	4.294	4.077	.257	.856

Appendix 3.13
Educational level and external auditors' reliance decision on the work of internal auditors in Sudanese banks:

No	Variable	First degree	Postgraduate diploma	Masters and above	Accounting professional certificate	F Value	Sig.
1	RD* and reporting level	2.542	1.500	2.000	3.235	2.474	.075
2	Scope of internal auditing is complete	2.625	2.500	2.000	3.000	1.175	.331
3	Control of internal audit staff	3.500	4.000	3.000	3.588	.452	.717
4	RD and free access to bank records	3.208	2.500	2.667	3.705	1.790	.164
5	RD and free access to bank employees	3.333	4.000	3.000	3.412	.428	.734
6	Relying of the quality of internal audit programmes	2.792	2.000	2.333	2.588	.645	.591
7	Keeping reliable standards of working papers	3.125	2.500	2.333	2.824	.884	.457
8	RD and covering all of bank activities	2.583	3.500	2.000	2.824	1.081	.368
9	Response to internal auditing reports	2.917	2.000	2.333	3.177	1.452	.241
10	Reliability on internal auditors' knowledge of banking operations	3.291	2.000	3.333	3.059	1.163	.335
11	Reliability on internal auditors' knowledge of banking procedures	3.208	2.500	3.333	3.000	.453	.716
12	Knowledge of new internal audit techniques	2.125	3.500	2.000	2.353	2.350	.086
13	Internal auditors training	2.708	3.000	2.333	2.882	.437	.728
14	Compliance between the work of internal auditors and the standards of professional practice of internal auditing	2.625	2.500	1.667	2.412	1.720	.177
15	Existence of internal audit manuals	3.667	4.000	3.000	3.294	.649	.588
16	General reliance on internal auditors objectivity	3.042	2.500	3.000	3.059	.175	.913
17	General reliance on internal auditors professional competence	2.708	2.500	2.000	2.588	.424	.737
18	General reliance on internal auditors work performance	3.000	2.000	2.333	3.235	2.013	.127
19	General reliance on internal auditors ability to monitor the control system	2.875	2.000	3.000	3.059	.670	.575
20	Reliance to reduce the cost	2.333	2.500	4.000	2.471	2.884	.047
21	Availability of internal auditing to reduce the cost	2.958	4.000	3.667	3.235	1.119	.352
22	Assigning work to internal auditors to reduce the cost	2.083	1.000	2.000	1.941	1.152	.339

Appendix 3.14

External auditors' experience and reliance decision on the work of internal auditors in Sudanese banks:

No	Variable	2 to 5 years	6 to 10 years	11 to 20 years	Over 20 years	F Value	Sig.
1	RD and reporting level	2.667	2.000	2.750	3.000	1.328	.278
2	Scope of internal auditing is complete	2.333	2.500	2.875	2.736	.428	.734
3	Control of internal audit staff	4.000	3.000	3.438	3.737	1.363	.267
4	RD and free access to bank records	3.333	2.500	3.500	3.526	2.267	.065
5	RD and free access to bank employees	4.000	2.750	3.375	3.526	1.743	.173
6	Relying of the quality of internal audit programmes	3.000	2.500	2.526	2.842	.962	.420
7	Keeping reliable standards of working papers	3.333	2.750	3.063	2.842	.395	.757
8	RD and covering all of bank activities	2.667	2.500	2.750	2.684	.103	.958
9	Response to internal auditing reports	3.333	2.750	2.625	3.211	1.408	.254
10	Reliability on internal auditors' knowledge of banking operations	4.000	3.125	3.250	2.947	1.067	.373
11	Reliability on internal auditors' knowledge of banking procedures	4.000	3.250	3.125	2.894	1.225	.312
12	Knowledge of new internal audit techniques	2.000	2.750	2.125	2.211	1.412	.253
13	Internal auditors training	2.667	2.500	2.875	2.790	.353	.788
14	Compliance between the work of internal auditors and the standards of professional practice of internal auditing	2.667	2.375	2.250	2.684	1.184	.327
15	Existence of internal audit manuals	4.333	3.625	3.125	3.631	1.225	.313
16	General reliance on internal auditors objectivity	2.000	3.125	3.063	3.105	1.084	.366
17	General reliance on internal auditors professional competence	2.667	2.625	2.750	2.474	.205	.892
18	General reliance on internal auditors work performance	3.333	2.875	2.875	3.105	.389	.762
19	General reliance on internal auditors ability to	3.333	2.750	2.563	3.211	1.490	.231

	monitor the control system						
20	Reliance to reduce the cost	2.667	2.500	2.625	2.368	.216	.884
21	Availability of internal auditing to reduce the cost	3.333	2.750	3.250	3.211	.533	.662
22	Assigning work to internal auditors to reduce the cost	1.667	2.375	2.188	1.684	2.173	.105

* RD Reliance Decision

Appendix 4

Respondents' Percentages

Appendix 4.1

Internal and external auditors attitudes and views (%) regarding objectivity of internal audit departments of Sudanese banks.

The Statement	Strongly Agree	Agree	Neutral	Disagree	Strongly disagree
1- Organisational status of the internal audit department is adequate for the fulfilment of its goals.	11.2	54.5	7.7	24.5	2.1
2- Interference by the management in the internal auditing staff work.	10.5	34.3	15.4	29.4	10.5
3- The internal auditing staff is allowed to review all departments in the bank.	24.5	49.0	7.0	14.0	5.6
4- The board of directors enhance the objectivity of internal auditors.	11.2	36.4	21.7	21.0	9.8
5- The internal audit director allows his staff to review a department in which one of his staff worked before in a non-audit capacity.	4.2	9.1	11.9	55.9	18.9
6- Conflict of interest is rarely present in the work of internal auditors.	7.7	36.4	16.1	33.6	6.3
7- The internal audit department is under the authority of executive management.	2.1	4.9	6.3	36.4	50.3
8- The board of directors (audit committee) approve the appointment of internal audit department directors.	3.5	4.9	12.6	44.8	34.3
9- The board of directors (audit committee) approve the removal of internal audit department directors.	3.5	5.6	9.8	44.1	37.1
10- The internal auditors report to the board of directors between 3 to 6 times a year.	9.1	18.2	11.2	40.6	21.0
11- The internal audit department is ranked at the same level as the managing director.	6.3	12.6	14.7	46.2	20.3
12- The internal audit department is directly reports to the board of directors.	7.0	12.6	10.5	52.4	17.5
13- In general, internal audit staff has access to all information considered pertinent.	32.9	44.1	12.6	8.4	2.1
14- Internal audit staff has free access to all employees in the bank.	30.1	46.2	14.2	9.1	0.7

Appendix (4.2)
Internal and external auditors attitudes and views (%) regarding competence of internal audit departments of Sudanese banks.

The Statement	Strongly Agree	Agree	Neutral	Disagree	Strongly disagree
1- The internal audit staff possess the knowledge needed to carry out their responsibilities.	14.7	50.3	18.2	14	2.8
2- The internal audit staff possess the skills needed to carry out their responsibilities.	11.2	48.3	22.4	14	4.2
3- The bank management encourages the internal audit staff to continually develop.	4.9	24.5	25.9	32.2	12.6
4- Some of the internal auditing staff in the bank have obtained a professional certification in auditing.	0	1.4	12.6	49.7	36.4
5- Some internal auditing staff in the bank are Certified Internal Auditors.	0	0.7	11.2	49.7	38.5
6- The bank management only appoints internal auditors with accounting or auditing qualifications as internal auditors.	0.7	11.9	13.3	45.5	28.7
7- The internal audit department staff are not subject to regular indoor training in auditing.	0	21.7	25.9	37.8	14.7
8- Not all of the internal auditing staff in the bank have experience in the audit profession.	2.8	21.7	22.4	42	11.2
9- All of internal audit department staff in the bank have experience in internal auditing.	2.8	19.6	30.8	41.3	5.6
10-The internal auditors maintain satisfactory relationships with other employees in the bank.	15.4	61.5	16.8	3.5	2.8
11- The board of directors is controlling the competence of internal audit departments.	3.5	23.1	19.6	33.6	20.3
12- The internal audit staff has the necessary professional competence.	4.2	24.5	22.4	35.7	13.3
13- The bank management only appoints experienced internal auditors.	4.2	24.5	22.4	35.7	13.3
14- Allocating employees from other departments to work as internal auditors will affect the competence of the department.	8.4	40.6	16.8	25.9	8.4

Appendix 4.3
Internal and external auditors attitudes and views (%) regarding work performance and monitoring of internal controls of internal audit departments of Sudanese banks.

The Statement	Strongly Agree	Agree	Neutral	Disagree	Strongly disagree
1- The director of internal audit department is supervising his/her staff through defined system of responsibilities.	28.7	52.4	9.8	8.4	0.7
2- The number of internal auditors in the bank is not sufficient when it is compared with the number of branches they audit.	4.9	21	11.2	49.7	13.3
3- There are audit schedules for the bank branches/departments audits.	17.5	55.9	13.3	11.2	2.1
4- The internal audit department develops appropriate audit plans for established audit objectives.	21.7	44.1	16.1	16.8	1.4
5- The bank internal auditors examine the reliability and integrity of information.	23.1	52.4	12.6	11.9	0
6- The internal auditors review the adequacy of risk management on a regular basis.	17.5	44.1	18.9	14.7	4.9
7- The internal auditing staff checks whether the established operating systems in the bank ensure compliance with policies and regulations.	18.2	50.3	14	16.1	1.4
8- The internal auditors review operations to ascertain whether results are consistent with established objectives.	10.5	47.6	20.3	20.3	1.4
9- There are corrective actions on the findings of the internal auditors.	16.1	56.6	13.3	13.3	0.7
10- The internal audit department do not apply the same rules for all levels of the bank.	4.9	38.5	21	28.7	7
11- The director of the internal audit department regularly checks the quality of working papers.	13.3	47.6	16.8	17.5	4.9
12- The internal auditing staff evaluate the adequacy of the bank internal control system.	17.5	49.7	13.3	16.8	2.8
13-The internal audit staff review the systems used for safeguarding the bank assets.	16.8	53.8	16.1	12.6	0.7
14- The internal audit department in the bank monitors the financial controls to ensure the reliability of financial reporting.	15.4	51	16.8	16.1	0.7

15- The internal audit department in the bank checks the financial controls are implemented properly.	14.7	53.8	18.2	12.6	0.7
16- There is a regular evaluation of risk management procedures.	11.9	40.6	18.2	28	1.4
17- The internal auditing staff understands the nature of operational controls.	12.6	53.1	19.6	14	0.7
18- The internal audit department in the bank do not ensure compliance controls aim to ensure compliance with laws and regulations.	7	53.8	21.7	14	3.5
19- I am able to say the internal audit department in the bank is responsible for the evaluation of internal control system.	29.4	49.7	14.7	6.3	0

Appendix 4.4:

External auditors attitudes and views (%) regarding their reliance decision on the work of internal auditors.

The Statement	Strongly agree	Agree	Neutral	Disagree	Strongly disagree
1- As external auditor, I believe the internal audit department in the banks reports to the highest level in the bank.	13	15.2	8.7	56.5	6.5
2- As external auditor, I can say the scope of the internal audit function in banks is complete and accurate.	2.2	23.9	21.7	47.8	4.3
3- I can say the director of the internal audit department can control and supervise his staff	8.7	58.7	10.9	19.6	2.2
4- I can say the internal audit staff has free access to the bank records.	6.5	52.2	10.9	28.3	2.2
5- I believe the internal audit staff has free access to other employees in the bank.	6.5	50	19.6	21.7	2.2
6- I can rely on the quality of internal audit programmes.	2.2	15.2	37	37	8.7
7- I can say the internal audit department keeps reliable standards of working papers.	2.2	32.6	26.1	34.8	4.3
8- I think the internal audit department is not empowered to cover all the activities of the bank.	2.2	26.1	15.2	50	6.5
9- The response to internal audit reports by the management is reasonable.	0	37	23.9	34.8	4.3
10- I can place reliability on the internal auditor's knowledge of the bank operations.	4.3	39.1	28.3	23.9	4.3
11- I can rely on the internal auditor's knowledge of bank procedures.	2.2	41.3	26.1	26.1	4.3
12- In my opinion knowledge of new audit techniques by internal auditors is not satisfactory.	2.2	4.3	19.6	65.2	8.7
13- I believe internal auditing staff are subject to continuing education programmes specified for internal auditors	4.3	13	37	45.7	0
14- In my opinion the level of compliance between the work of internal auditors and the standards of professional practice of internal auditing is low.	0	10.9	28.3	58.7	2.2
15- I feel the responsibilities of internal auditors are assigned by reliable written policy.	19.6	39.1	17.4	19.6	4.3

16- In general, I am relying on the internal auditors objectivity.	6.5	30.4	23.9	37	2.2
17- In general, I am relying on the professional competence of internal auditors	6.5	13	21.7	52.2	6.5
18- In general, I am relying on the work performance of internal auditors.	0	32.6	39.1	23.9	4.3
19- In general, I am relying on the internal audit staff ability to monitor the internal controls.	4.3	28.3	26.1	37	4.3
20- I am relying on the work of internal auditors to reduce the cost of external audit.	0	23.9	13	52.2	10.9
21- Availability of the internal audit function in the bank reduces the cost of external audit.	4.3	41.3	21.7	30.4	2.2
22- I used to assign specific audit work to the internal auditors to reduce the cost of external audit.	0	6.5	10.9	56.5	26.1

Appendix 5:

Interview document

Appendix 5.1 Objectivity of internal audit departments:
Appendix 5.1.1

What is the reporting level of the internal audit department at the bank?

I have been working for more than 30 years in the General Auditor Chamber including my period as the General Auditor of Sudan. However, during this long period in General Auditor Chamber, I worked as a junior and senior auditor, and as a head of auditing teams. Regarding the issue of the reporting level of internal audit departments in government banks which were audited by the General Auditor Chamber, I can say "In some of the banks in which I was involved in its audit the internal audit departments in these banks report to the managing director of the bank with a copy of their reports to the board of directors". All of these banks we audited, there were not any audit committees although there is a directive issued by the Bank of Sudan requiring all banks to establish an audit committee.

As external auditors do you recommend any solutions for the issue of the reporting level of internal audit departments?

First, I believe that the issue of reporting level is the cornerstone of the independence of any internal audit department in banks or any other firms "in banks, in every audit we recommend that in our reports that the internal audit departments should report directly to the board of directors rather than reporting to the managing directors in order to maintain the independence of the department"
"One of the problems of the independence of internal audit departments is organisationally under the arm of executive management not the board of directors". This problem again affects the independence. But what I can say "these banks report on average 2 to 3 times a year to the managing directors".
Now I am working as private internal auditor after my retirement and also I audited a number of private and foreign/local partnership banks, but the situation is the same in terms of reporting level that the internal auditors in these banks report to the managing directors rather that the board of directors.

As external auditor worked in the General Auditor Office and now working as a private external auditor, did you find any difference between the reporting level in between banks audited by the GAO and banks audited by private external auditors?

In fact in both, government owned banks and other types of banks whether they are privately owned or any other type of ownership. The reporting level is the managing director of the bank rather than the board of directors. Again this situation may affect the independence of the internal audit department because in all of the cases the appointment and removal of the director of the internal audit department is a managing director decision so the internal audit director and his staff will not be independent from the executive management.

To what extent the internal audit department has access to bank records and documentation?

In all audits, I used to evaluate the internal control system and the internal audit departments. Regarding the internal audit department staff access, "in Sudanese banks, internal auditors have the access to bank records. I noticed that they can check all accounting books and records, in addition to all supporting documents and they can meet any personnel they want. This is considered to be a good sign of their independence". The only criticism I can raise here is that internal auditors are not professionally competent in internal auditing.

<u>Appendix 5.1.2</u>

What is the reporting level of the internal audit department at the bank?

As external auditor, I have been involved in bank audits including private, joint ownership, and public owned banks. According to my long experience as external auditor, in all banks the reporting level is the bank chief executive officer that means the internal audit department reports are presented to the bank manager.

Does this situation (reporting to managing director) affect the independence of internal audit department?

Absolutely it affects the independence. "In Sudanese banks, the decision of hiring and firing the internal audit directors in the bank is the responsibility of the bank manager. In this situation internal audit staff will not be independent enough"

What is the organizational level of the internal audit departments?
What I noticed "although internal auditors have their own identity and have their own departments in the organizational structure of the bank, but still they are affected by the bank management according to their reporting level which is the bank director"

To what extent does the internal audit department have access to the bank records, documentation and employees?

As far as I know internal auditors in banks can easily check any documents they want and they have access to any records in the bank. They also have the right to investigate any employee in the bank.

<u>Appendix 5.1.3</u>

What is the reporting level of the internal audit department at the bank?

The reporting level in most of the banks I audited is the bank manager.

What about the board of director?

In the banks I used to audit they do not report to the board of directors. They only send a copy of their reports to the board, but they mainly report to the bank manager. In this what I can say the organisational position of the internal audit department located is under the bank manager, so all of its reports should be addressed to the bank manager.

Regarding the position of internal audit departments in the organisational chart of the bank, external auditors explained that the position of the departments in the banks put it under the administrative arm of the managing directors, again this situation may impair the independence of the departments.

What about the organisational level of the internal audit department in the bank organisational chart?

Regarding the position of internal audit departments in the organisational chart of the bank, I can say that the position of the internal audit department is under the bank director.

To what extent does the internal audit department have access to the bank records, documentation and records?

Usually, the internal audit department employee's access to the bank records is reasonable, I used to contact the internal auditors during my audits. They do not complain of any restrictions in access to records and personnel in other departments.

Appendix 5.1.4

What is the reporting level of the internal audit department at the bank?
The internal audit director used to report to the bank manger every three months as a maximum period as required by the regulations of bank of Sudan. If there is fraud cases in one of the bank branches, the internal audit director may attend the board meeting to discuss the issues that are included in the report. Other wise the internal audit director will not usually attend the boards' meetings. Usually, the internal auditing reports cover all internal auditing issues and summary for the reports of breach audits.

What is the organisational level of the internal audit department in the bank organisational chart?

The organisational status of the internal audit department is reasonable because every bank maintains a separate internal audit department headed by a director. According to the bank internal regulations and requirements of the bank of Sudan, the internal audit department should be identified in the organisational chart of the bank.

To what extent dose the internal audit department have access to the bank records, documents and personnel?

According to the regulations of the bank and the internal audit manual, internal auditors should have access to the bank records and personnel. Internal auditors should also have access to the branch records and the branch staff and managers should facilitate the work of internal audit teams.

How often internal auditors meet with the top management?

They meet with bank managers. In very rare cases the internal audit director meets with the board in case of fraud cases.

<u>**Appendix 5.1.5**</u>

What is the reporting level of the internal audit department at the bank?

In our bank we used to report to the banks' managing director every 3 months, we also send a copy of the quarterly reports to the board of directors. These reports including the activities of the departments during the period, for example the number of branches audited, we also attach a copy of the audit report of branches to the managing director.

What is the organisational level of the internal audit department in the bank organisational chart?

In this bank we have an independent internal audit department. We report to the managing director of the bank and this department is under his direct supervision. In other words we have a separate internal audit department with a reasonable level of independence. Although we have a separate internal audit department, but we are still under the direct supervision of the bank managing director.

To what extent does the internal audit department have access to the bank records, documentation and records?

In terms of internal auditors access to bank records, documentation and personnel, we have freedom of access to all bank departments, records and personnel and the department can conduct its audit programmes without any interference of the management of the bank.

How often you meet with the top management?

We used to have regular meetings with the managing director of the bank, may be every month or where there is a need for meeting. But we do not attend the board of directors meeting regularly.

<u>**Appendix 5.1.6**</u>

What is the reporting level of the internal audit department at the bank?

We used to send our reports directly to the bank-managing director quarterly. A copy of our end of year internal auditing report will be sent to the board of directors.

What is the organisational level of the internal audit department within the bank organisational chart?

The bank has a separate centralised internal audit department. Administratively, the internal audit department is under the direct supervision of the bank-managing director.

To what extent does the internal audit department have access to the bank records, documentation and personnel?

Internal auditors can review any of the bank records, including accounting and any other records. As internal auditors they can see and meet any personnel they want to investigate and to have all queries they want answered.

How often you meet with the top management?
As an internal audit director, I can see the bank-managing director regularly 8-10 times a year for formal meetings. Regarding the boards' meetings, I do not attend it.

Appendix 5.1.7

What is the reporting level of the internal audit department at the bank?

"All of internal audit reports if it is regarding the quarterly reports, annual reports or special investigations reports are directly sent to the bank general manager. We haven't a direct relationship with the bank board of directors"

What is the organisational level of the internal audit department within the bank organisational chart?

Although we have more than 50 branches in Khartoum and other states of Sudan, but we have one internal audit department in the head office of the bank. As we are reporting to the bank general manager, we administratively belong to the general manager of the bank.

To what extent do the internal audit department have access to the bank records, documentation and personnel?

According to our bank regulations, the internal audit department has the right to review and investigate at any time and at any branch the accounting records and any other document. This is including access to the bank records and personnel.

How often you meet with the top management?

I used to have meetings with the general manager (once every month). The general manager used to present the internal audit department reports on behalf of our department as we do not attend the board of directors meetings.

Appendix 5.1.8

What is the reporting level of the internal audit department at the bank?
In our bank we used to report to the banks' managing director every 3 months. As we are a part of the Albaraka Group, we also send a copy of the quarterly reports to the board of directors and to the audit committee of the bank. The internal audit reports covering all of our activities as internal auditors during a certain period. We are covering 24 branches in Khartoum and other states of Sudan.

What is the organisational level of the internal audit department in the bank organisational chart?
We have a sort of independence that we report directly to the audit committee of the board of directors, but we also should report to the managing director of the bank. We have a separate internal audit department that clearly can be identified in the organisational chart of the bank.

To what extent do the internal audit department have access to the bank records, documents and personnel?

As internal auditors and according to the internal audit manual, internal auditors can review any bank records financial and other records in the head office and in other branches. We also can investigate and carry out any queries with any other staff in any position in the bank.

How often you meet with the top management?
We do not meet the audit committee or the board of directors as we send them our reports regularly to the bank head office at Bahrain (every 3 month). But we have a direct reporting relationship with the bank general director as we report to him every month on the activities of our department, such as what we have covered during the last period, copy of branch audits.

Appendix 5.2 Competence of internal audit departments:

Appendix 5.2.1

To what extent is the internal audit staff in banks competent, in terms of experience in auditing, training and educational background?

In general internal auditors in banks are not competent. In terms of experience, most of the internal auditors in banks are not appointed to work as internal auditors, in other words they are transferred from other departments of the banks to work as internal auditor. In many cases, I noticed that all employees who have problems in their departments, are transferred to internal audit department. So most of internal auditors transferred to this department lack experience. The bank management rely on the internal training of internal auditors as the cost of external training is considered to be expensive (very few banks train their internal auditors externally). In all of the banks I was involved in its audits, no internal auditors hold professional certificate in internal auditing, but very few are doing the certificate of Sudanese Council of Certified Accountants but I doubt they will continue to work as internal auditors if they obtained this certificate. However, "In Sudan we have no professional body concerned with the issue of internal auditing like the Institute of Internal Auditors in UK and USA, and even like many other African and Arab countries"

Is the bank management encouraging the internal audit staff training?

As external auditor, as far as I know, most of banks are training their staff locally (inside Sudan) and more specifically in the Higher Institute of Banking Studies in Khartoum as this institute is specialised in banking studies. However, most of these training courses are short term courses (maximum one week course.)

Do the internal staff have knowledge of new trends and techniques of auditing and internal auditing?

In general, internal audit staff are not well trained in auditing and internal auditing, so they lack competence, and in my opinion the training provided to internal auditors is only focusing on the financial audits rather than the new roles of the internal auditors, so all of the new techniques of auditing and internal auditing are not known by internal auditors.

Appendix 5.2.2

To what extent is the internal audit staff in banks competent, in terms of experience in auditing, training and educational background?

As a bank external auditor I do not rely heavily on the competence of internal auditors. Because what I believe "internal auditors are not professionally competent. I can refer that to most of banks do not invest in their human capital, for example I never meet Certified Accountant or Certified Internal Auditor working in internal audit department. It is very rare to find an internal auditor with a Master's Degree in Accounting and Finance who is working as internal auditor. Furthermore, most of internal auditors working in the banks have few years of experience in the area of internal auditing. "Sudanese banks do not appoint internal auditors or even directors of internal auditing, but banks used to rotate employees from and to the internal audit departments with quick turnover of employees"

In terms of short term training courses in auditing and internal auditing, it is very rare. However, most of these training courses are conducted in Sudanese institutions. Some branches of foreign banks are training their employees (including internal auditors) in their Head Offices, although it is short term courses, but it is conducted by more experienced trainers and with better facilities.

To what extent do the bank management supports the internal audit staff in their continuing education programmes and training?

For training, as I said most banks used to conduct short-term training courses for its employees in certain institutes in Khartoum. As far as I know these courses are focusing on the other fields (investments, accounting) rather than in internal auditing. Regarding continuing educational programmes, I do not think that banks support internal auditors to continue their educational programmes especially the Certification programmes in auditing and internal auditing because of the high cost of these training programmes and, in recent years, the budget of external training in banks and most of institutions in Sudan was decreased.

To what extent do internal auditors in banks have knowledge of new trends and techniques of auditing and internal auditing?

Without appointing permanent staff of internal auditing and training them, banks can never have competent internal auditors. What I can say internal auditors have no knowledge of developments in auditing and internal auditing due to lack of proper training in auditing and lack of a specialised journal of auditing that should be provided to internal auditors.

Appendix 5.2.3

To what extent is the internal audit staff in banks competent, in terms of experience in auditing, training and educational background?

In banks most of training courses focus on the other issues and it ignores internal auditing training programmes, and concentrates on other issues, for example credit letters issues, development of management and investments. The courses conducted in auditing and internal auditing are short-term courses. Regarding long-term courses and professional programmes cost the bank a lot of money, as a result, banks do not use such training for its employees.
Experience in auditing and internal auditing is one of the shortcomings of internal audit departments. The main problem that there is no cadre for internal auditors in the bank, internal auditors are transferred to internal audit departments from other departments without any training, after few period (one year) again the internal auditor transferred to other department and so on.

Regarding the educational background most of the employees in the banks have a background in accounting, finance, economics and management and some with high school certificates and very few with first degree certificate in English, History, ...

To what extent do the bank management supports the internal audit staff in their continuing education programmes and training?

It is very rare that banks support the internal auditing staff in certification programmes or in higher education. Most of employees who are doing further education, doing it in their own time (part-time, evening studies).

To what extent do internal auditors in banks have knowledge of new trends and techniques of auditing and internal auditing?

As a result of poor training opportunities in banks for internal auditors, internal auditors have not got enough knowledge in auditing and internal auditing issues, as a result their knowledge of new trends of internal auditing are not sufficient.

<u>Appendix 5.2.4</u>

To what extent is the internal audit staff in banks competent, in terms of experience in auditing, training and educational background?
I can summarise this in the following points:

- The training budgets of the banks decreased during the last decade, for this reason, the bank management focused on in-house training rather than out side training. For internal auditors the management used training provided by specialised personnel.
- Internal auditors' knowledge of new trends of internal auditing must be accompanied by investing in internal auditing personnel by providing them with training in internal auditing and increase their technical competency. This type of training does not exist.

To what extent do the bank management support the internal audit staff in their continuing education programmes and training?

We used to support them in academic programmes such as masters degrees. For certification programmes in auditing and internal auditing, these programmes do not exist in Sudan.

To what extent do internal auditors in banks have knowledge of new trends and techniques of auditing and internal auditing?
Due to the shortages in the training in internal auditing, our staff have not the required knowledge of new trends and techniques in internal auditing.

Appendix 5.2.5

To what extent is the internal audit staff in banks competent, in terms of experience in auditing, training and educational background?

The bank do not hire professional internal auditors to work as bank internal auditors, so most internal auditors working in the department are transferred from other departments in the bank, for this reason they lack competence. I can say their experience in auditing is not sufficient.
About training, the bank rarely specifies training opportunities in auditing or internal auditing, although we asked for training for our internal auditors. The main problem is that the bank management mainly focuses on training related to some specific issues, like training in investments, management, and customer services.

Regarding the educational background, we have two types; High School graduates and university graduate internal auditors. In this bank, university graduates were accounting and Management graduates. I can say "in the best situations the bank management encourage the employees to obtain the membership of the Sudanese Council of Certified Accountants on part-time basis due to the low cost of training"

To what extent do the bank management support the internal audit staff in their continuing education programmes and training?

If we are talking about Certification Programmes in auditing or internal auditing, no one in this bank is obtaining this certificate. For short-term training courses, we did many short training courses in different fields of banking activities except in internal auditing or auditing.

To what extent do internal auditors in banks have knowledge of new trends and techniques of auditing and internal auditing?

What I can say, internal auditors in Sudanese banks with the exception of branches of foreign banks lack knowledge of application of new trends of internal auditing.
From my past experience in working in a branch of foreign bank in Sudan, these branches of foreign banks used to provide high quality training courses for its employees in side and out side Sudan with arrangements with the head office that enriches their knowledge of new trends of auditing and internal auditing.

Appendix 5.2.6

To what extent is the internal audit staff in banks competent, in terms of experience in auditing, training and educational background?

In terms of education, all of the staffs at the internal audit department are high school or university graduates from accounting, management and economics schools. In terms of experience in auditing or internal auditing, most of them (12 out of 15) have experience of less than two years in the internal audit department of the bank.

About short-term training courses in internal auditing, the staff in the internal audit department did not carry out any training in the area of internal auditing. But they did some training courses in other banking areas. This is due to the institutions we deal with to carry out training courses are not running training courses in internal auditing.

Most of our staff graduated from universities, but most of them are specialised in management and accounting.

To what extent do the bank management supports the internal audit staff in their continuing education programmes and training?

Management used to support all bank staff by paying them their tuition fees mainly for evening studies. But no one is doing Certification Programmes in internal auditing, this may be due to that we have no Institute of Certified Internal Auditors in Sudan.

To what extent do internal auditors in banks have knowledge of new trends and techniques of auditing and internal auditing?

"If you haven't the enough training, experience and educational background and if you haven't the subscriptions in journals related to auditing and internal auditing how can we ask our staff to have the knowledge of new techniques and update their information in internal auditing"

Appendix 5.2.7

To what extent is the internal audit staff in banks competent, in terms of experience in auditing, training and educational background?

As we are being as a large internal audit department, we have different ranges of experience among our staff (25 internal auditors) that the bank had 102 in 2000 branches (now 58 branches). So we have some experienced staff that has experience more than 5 years in auditing.

Regarding the training, the problem is that we haven't specialised institutions in the area of internal auditing. To train some of our internal auditors, we hired an external auditor to train part of our staff last year.
As we are a large department, we have different qualifications for our internal auditors. For example, it includes, the commercial high school graduates, first degree and masters degree holders, but we haven't auditors with professional qualifications.

To what extent do the bank management supports the internal audit staff in their continuing education programmes and training?

Banks used to support any local training for their staff. This includes their university education and any postgraduate studies.

To what extent do internal auditors in banks have knowledge of new trends and techniques of auditing and internal auditing?

Due to lack of training in internal auditing, our staff has a weak knowledge of new techniques of modern development in auditing and internal auditing.

Appendix 5.2.8

To what extent is the internal audit staff in banks competent, in terms of experience in auditing, training and educational background?
We have different levels of experience within our staff. For example we have staff with experience of more than 5 years experience in internal auditing in banks. As we are a part of an international group, we are subject to the all training courses whether it is arranged inside or outside Sudan, the bank has a budget for the training courses. The bank policy is to appoint well educated personnel, so all of the employees in the internal audit department have graduated from the university (management and accounting graduates)

To what extent do the bank management supports the internal audit staff in their continuing education programmes and training?

All of our staff are first degree holders in accounting and management. We have not auditors with certificate in auditing and internal auditing. The bank management used to hire professional auditors to train our internal auditors.

To what extent internal auditors in banks have the knowledge of the new trends and techniques of auditing and internal auditing?

To some extent we are in a better position when compared with other banks working in Sudan. Our internal auditors are subject to different types of training programmes in internal auditing that increased their knowledge in different areas of internal auditing.

Appendix 5.3 Work performance and monitoring of internal controls of internal audit departments:

Appendix 5.3.1

Does the internal audit department use internal audit programmes?

Every internal audit department in the banks maintain audit programmes. These audit programmes were set according to the needs of the internal audit department. However many factors are contributing for example the size of the bank, the number of the branches, the number of employees.

To what extent are these programmes effective?

As I mentioned earlier, most of the internal auditors are focusing on the financial audits, so these programmes were designed to mainly to be in line with financial audits. I can say "these audit programmes are effective and well designed"

To what degree do the internal audit departments cover the bank's departments and branches?

For the bank Head Offices, there are continuous audits. This is for a simple reason, internal auditors are mainly located in the Head office of the bank and this make the internal auditors more involved in the process of internal auditing. For branches, usually there are no internal auditors in the branches. Internal audit teams usually conduct one audit every year for every branch. I think one audit is not enough.

How effective is the internal auditors in the bank in monitoring the internal controls?

In general, internal auditors are doing this function properly, because the internal auditors in banks are mainly focusing in the financial audits rather than any other types of audits. But unfortunately in most of the cases, internal auditors are involved in designing the internal control systems.

Appendix 5.3.2

Is the internal audit department uses internal audit programmes?

In all audits I noticed that all internal audit departments in banks maintain audit programmes and detailed internal audit manuals that cover most of the bank's activities. But the only concern about these internal audit programmes and manuals that they are not updated, for example I noticed in a bank one of these not updated since the establishment of the bank in 1983.
For the quality of these programmes, I think it is reasonable.

To what degree do the internal audit departments are cover the bank's departments and branches?

For branches internal audits, in most of the cases it is conducted once a year, but there are some branches are audited more than once, this depends on the importance of the branch and its activity and if there is a fraud case in the bank.

To what extent do internal auditors in banks monitor the internal control system?

Internal audit departments will be more effective if they concentrate more on efficiency and effectiveness of the bank not only on the internal control system. In my opinion internal auditors in banks are functioning well in monitoring the internal control system.

Appendix 5.3.3

Does the internal audit department use internal audit programmes?

As external auditor and as a part of my audit work, I used to evaluate the quality of the department's audit programmes. I can say all of banks have detailed audit programmes, and some of them have audit manuals. What I have noticed that these audit programmes are written and well documented. Sometimes we used to give our advice on some issues related to internal audit programmes. The quality of internal audit programmes is fair as it is designed to cover all departments and branches of the bank.

To what degree do the internal audit departments cover the bank's departments and branches?

As far as I know, the internal audit coverage for the banks' branches is once a year. The head office departments are continually audited especially the large transactions. However, internal auditors are mainly located in the head offices of the banks.

To what extent do internal auditors in banks monitor the internal control system?

Regarding the internal auditors' monitoring the internal controls, as an external auditor, I agree that internal auditors monitoring of internal controls is reasonable. I can argue that in Sudanese auditing environment, internal auditors are mainly concerned with monitoring of internal controls as well as financial audit.

Appendix 5.3.4

Does the internal audit department use internal audit programmes?

They have detailed internal audit programmes; these programmes are documented and written. These programmes are updated from time to time. Also the bank have an internal audit manual.

To what degree the do internal audit departments cover the bank's departments and branches?

For branch audits, it should be conducted once every year. This is according to the regulation of bank of Sudan. For the head office departments, it should be reviewed on a daily basis, because we have a lot of transactions at the head office and the computer net connects all the branches with the head office.

To what extent do internal auditors in banks monitor the internal control system?

They are monitoring and evaluating the internal control system regularly

Appendix 5.3.5

Does the internal audit department use internal audit programmes?

We have internal audit programmes and these audit programmes are updated on continuous bases. The banks' external auditors are reviewing these audit programmes and give their opinions on them. These audit programmes are very detailed describing all of the procedures needed for internal auditors to conduct their work. Also we have to prepare audit plans at the beginning of the financial year and present them to the managing director of the bank

To what degree do the internal audit departments cover the bank's departments and branches?

As our bank has no internal auditors in the bank branches, we used to audit our branches once every year. In these audits we used to audit all the sections of the branch and we conduct a comprehensive evaluation for the activities of the bank, including the monthly branch balance sheet and profit and loss account analysis. We also ensure that the branch management submitted its reports and all statistics required and any other financial information to the responsible administrations in the head office of the bank. For the administration in the head office, we used to check the transactions on daily a basis as we are part of the head office.

To what extent do internal auditors in banks monitor the internal control system?

One of the main responsibilities of internal auditors in the bank is to ensure that the internal control system is working properly. We used to evaluate the control system and monitor it. We also stick to the regulations of bank of Sudan regarding the monitoring of the control systems. Furthermore, we implement all procedures in the internal audit manual regarding the internal controls.

Appendix 5.3.6

Does the internal audit department use internal audit programmes?

We maintain internal audit programmes. The purpose of these audit programmes is to audit all of the transactions of the bank in all departments and branches.

To what degree do the internal audit departments cover the bank's departments and branches?

Like most of the banks in Sudan, we haven't internal auditors in branches. The internal audit department relies on the annual audits of the branches. As we are stationed in the head office of the bank, we used to audit the head office departments on a continuous bases.

To what do extent internal auditors in banks monitor the internal control system?

We check that the internal control system is operating effectively. The internal audit manual is considered to be our guidance in monitoring the internal control system.

<u>Appendix 5.3.7</u>

Does the internal audit department use internal audit programmes?
Yes we have detailed internal audit programmes. The audit programmes cover all of the bank departments and branches audits. During the last year we engaged with an external consultant to update our internal audit programmes. What I can to say we try to update our programmes on a continuous basis.

To what degree do the internal audit departments cover the bank's departments and branches?

According to the regulations of Bank of Sudan that every bank branch should be audited at least once a year. As we are a publicly owned bank, we apply the public sector financial regulations very strictly. However, we have no internal auditors at the branches, but we used to audit our branches once a year, except Aweel Branch in the southern states due to the past civil war there. The head office departments and the computer department are being covered under the daily supervision of the internal auditors. But as we have a large numbers of branches and we have about 17 internal auditors, it would be difficult to conduct a comprehensive internal audit for these branches.

To what extent do internal auditors in banks monitor the internal control system?

We consider the internal control system as one of our main issues of concern. We used to monitor the internal control system by ensuring that procedures are in place.

<u>Appendix 5.3.8</u>

Does the internal audit department use internal audit programs?

We have internal audit programmes and these *audit programmes* are checked regularly. The banks' external auditors are reviewing these audit programmes and give their opinions on them. These audit programmes are very detailed describing all of the procedures needed for internal auditors to conduct their work. Also we have to prepare audit plans at the beginning of the financial year and present them to the managing director of the bank. These audit programs are written and well documented, we ensure that every internal auditor in the bank have a copy of it.

To what degree does the internal audit department cover the bank's departments and branches?

Regarding the internal audit coverage, for branches audits, it is usually conducted once or twice a year as we have small numbers of branches. The internal audit department is located in the head office, as a result we used to audit the head office transactions regularly. According to the regulations of the Central Bank, each branch should be audited at least once a year, so in most of the cases branches are audited once a year and sometimes more.

To what extent do internal auditors in banks monitor the internal control system?

One of the main responsibilities of internal auditors in the bank is to ensure that the internal control system is working properly. We used to evaluate the control system and monitor it. We also stick to the regulations of bank of Sudan regarding the monitoring of the control systems. Furthermore, we implement all procedures in the internal audit manual regarding the internal controls.

Appendix 5.4 External auditors' reliance on the work of internal auditors in Sudanese banks

Appendix 5.4.1

As external auditor, do you rely on the work of internal auditors?

I cannot place complete reliance on the work of internal auditors. Because first, they are not independent enough as I mentioned earlier, secondly they are not technically competent. In terms of their work performance, the situation is better as they have a clear system and manuals.

Appendix 5.4.2

As external auditor, do you rely on the work of internal auditors?

Generally speaking, we only rely on the work of internal audit function when internal auditing staff are qualified and if they have clear scope. In my opinion, in Sudanese banks, internal auditors have not get the required qualifications, therefore, I am not relying on the work of internal auditors. However, if we feel that internal auditors benefit us especially if internal audit increase our confidence in the internal control system and therefore, we reduce the amount of tests and sample size.

Appendix 5.4.3

As external auditor, do you rely on the work of internal auditors?
This is depends on certain procedures that we have to implement. The purpose of these procedures is making sure that the internal audit function is operating properly. Furthermore, we have to satisfy ourselves that the internal audit staff has the required technical abilities. However if they are competent in their work, I will put some reliance on them. If not I will not rely on their work. But practically in Sudanese banks, it is very difficult to put full reliance on the work of internal auditors, mainly for their poor competence. However, if the bank has a sound internal audit department, it might lead to reduction on the cost of external audit, that as external auditor, my focus will be only on the financial statements.

Appendix 5.4.4

As external auditor, do you rely on the work of internal auditors?

This is depends on their performance, I can evaluate their performance before the beginning of audits. If they are independent and competent, I will rely on their work. But in fact most of internal audit departments in Sudanese banks are not freely performing their work and there are many factors affect their competence.

What the effect of this decision on the cost of external audit?
As long as I am not relying on the work of internal auditors in banks. In Sudan, it is very unusual for the audit fees to be reduced because of reliance decision on the work of internal auditors.

Appendix 5.5 Application of Sharia audits in Sudanese banks

Appendix 5.5.1

Do you think internal auditors in the bank apply Sharia audits?

By law each bank in Sudan has a Sharia Supervisory Board, in general, internal auditors when checking the bank transactions, they ensure that the transactions are complied with the Sahria rules (Islamic rules). For example, internal auditor will not pass the transaction if it is including usury or any other transactions financed by the bank are prohibited by the Islam, but I think they need more training in Islamic financial issues.

Appendix 5.5.2

Do you think internal auditors in the bank apply Sharia audits?

As external auditor, I think most of the internal auditors in banks are not aware enough of Sharia audits and they need to more about it.

Appendix 5.5.3

Do you think internal auditors in the bank apply Sharia audits?

The most suitable personnel to this job is Sharia Supervisory Board members, but in practice they would not be able to cover all of the bank transactions because the board meetings are not frequent and the problem is that most of internal auditors in banks are not experts in the Sharia issues.

Appendix 5.5.4

Do you think internal auditors in the bank apply Sharia audits?

Many banks established Sharia Supervisory Boards to ensure that the banks' transactions are being conducted according to the Islamic financial rules. The bank of Sudan (the Central Bank) is making good efforts to train internal auditors in these issues (workshop conducted in December 2004). The quick turnover of internal audit employees within their banks made internal auditors not aware of these Sharia audits.

Appendix 5.5.5

Do you think internal auditors in the bank apply Sharia audits?

To what extent internal auditors in banks can monitor the internal control system?
Our bank is recently established the Sharia Supervisory Board, but still the internal auditors are not trained well in this area. I can say our experience in the Shaia audits is still in it infancy.

Appendix 5.5.6

Do you think internal auditors in the bank apply Sharia audits?

Our bank is one of the pioneer banks introducing Sharia audits, in that we have trained staff. Generally, in Sudanese bank the issue of Sharia audits is still a new experience and most of internal audit staff needs to be trained to conduct it properly.

Appendix 5.5.7

Do you think internal auditors in the bank apply Sharia audits?

Sharia audits still need to be developed in Sudanese banks due to lack of training in this area although the Bank of Sudan conducted a training course but I think we need more training. The Sharia Supervisory Board in each bank could not check all of transactions but conducting an overall evaluation for the Sharia audits.

Appendix 5.5.8

Do you think internal auditors in the banks apply Sharia audits?

Theoretically, the role of internal auditors in the Sharia audits starts from the process of checking the daily transactions to the examination of the financial statements. They also should check out that the transactions are not including usurious dealings and ensure that all of the transitions audited are complied with Islamic rules. In practice, internal auditors in Sudanese financial institutions are away from these concepts and they need more training in the area of Islamic financial regulations.

Appendix 6

Interviews summary

6-1

Interview	Reporting level of the internal audit department	Organisational level of the internal audit department	Free access to employees and bank records
First interview	'Internal audit departments report to the managing director of the bank with a copy to the board of directors'	'One of the problems of independence that the department is organisationally under the arm of management, not the board of director'	'I noticed that they can check all accounting books and records and they can meet any personnel they want'
Second interview	'In all banks the reporting level is the bank executive officer'	'Although internal auditors have their own departments in the organisational structure of the bank but they still affected by the bank management'	'They have the right to investigate any employee in the bank'
Third interview	'The reporting level in most of the banks I audited is the bank managing director'	'I cam say that the position of the internal audit department is under the bank managing director'	'Internal auditors do not complain of any restrictions in access to records and personnel in other departments'
Fourth interview	The internal audit director used to report to the bank managing director every three months as required by the regulations of the bank of Sudan'	'The organisational status of the internal audit department is reasonable because our bank maintain a separate internal audit department headed by a director'	'Internal auditors have access to records and personnel'
Fifth interview	'We report to the bank managing director every three months'	'We report to the managing director of the bank and this department under his direct supervision'	'We have freedom of access to all bank departments'
Sixth interview	'We used to send our reports to the bank managing director quarterly with a copy to the board of directors'	'Administratively, the internal audit department under the direct supervision of the bank managing director'	'Internal auditors can review any of the bank records, including accounting and any other records'
Seventh interview	'All of internal audit reports if it is regarding the quarterly reports, annual reports or special investigation reports are directly sent to the bank managing director'	'We belong to the bank managing director'	'The department can review and investigate at any time at any branch the accounting records and any other document'
Eighth interview	'We also send a copy of the quarterly reports to the board and the audit committee'	'The internal audit department can be clearly identified in the organisational chart of the bank'	'We also can investigate and carry out any queries with any other staff in any position in the bank'

6-2

Interview	Internal auditors' experience and training and educational background in internal auditing	Internal auditors knowledge of new techniques of auditing and internal auditing
First interview	Experience: 'Internal auditors in banks are not appointed to work as internal auditors'. Training and education: 'The bank management rely on the internal training of internal auditors'.	'All of the new techniques of auditing and internal auditing are not known by internal auditors'
Second interview	Experience: 'most of internal auditors working in the banks have few years of experience in the area of internal auditing'. Training and education: 'Training courses in internal auditing are very rare'.	'What I can say internal auditors have no developments in auditing and internal auditing due to lack of proper training in auditing'
Third interview	Experience: 'Experience in internal auditing is one of the shortcomings of internal audit departments'. Training and education: 'It is very rare that banks support the internal auditing staff in Certification programmes or in higher education'	'As a result of poor opportunities in training in banks, internal auditors have not got the enough knowledge'
Fourth interview	Training: 'The training budgets if Sudanese banks decreased during the last decade, for this reason the bank management focused on in-house training rather than external training'	'Our staff have not the required knowledge of new trends and techniques in internal auditing'
Fifth interview	Experience: ' I can say their experience in auditing is not sufficient' Training and education 1: 'The bank rarely specifies training opportunities in auditing or internal auditing' Training and education 2 'For short-term training courses, we did many training courses in different fields of banking activities except in internal auditing'	'Internal auditors in Sudanese banks with the exception of branches of foreign banks lack knowledge of application of new trends of internal auditing'
Sixth interview	Experience: 'In terms of experience in auditing and internal auditing, most of them have experience less than two years' Education: 'Most of our staff are graduated from universities and most of them specialised in accounting and management' Training 'the staff in the internal audit department conducted very little training in the area of internal auditing'	'If you haven't enough training and the staff lack of experience and haven't subscriptions in journals related to auditing and internal auditing how can we ask our staff to have the knowledge of new techniques and update their information in internal auditing'
Seventh interview	Experience: 'As we are a large department, so we have some experienced staff that has experience more than 5 years in auditing' Training: 'The problem that we haven't specialised institutions in the area of internal auditing' Education: 'We have different qualifications for our internal auditors'	'Our staff are not well informed of modern developments in auditing and internal auditing'
Eighth interview	Experience: 'We have different levels of experience within our staff' Training: 'As we are a part of an international group, we are subject to the all training courses whether inside or outside Sudan' Education: 'The bank policy is to appoint qualified personnel'	'Our internal audit staff are subject to different types of training programmes in internal auditing that increase their knowledge in different areas of internal auditing'

6-3

Interview	Quality of internal audit programmes	Audit coverage	Internal auditors monitoring of internal controls
First interview	'These audit programmes are effective and well designed'	'For head offices, there are continuous audits' 'Internal audit teams usually conduct one audit every year for every branch'	'In general, internal auditors are doing this function properly'
Second interview	'These internal audit programmes and manuals are not updated'	'For branches internal audits, in most of the cases it is conducted once a year, but there are some branches are audited more than once'	'In my opinion internal auditors in banks are functioning well in monitoring the internal control system'
Third interview	'The quality of internal audit programmes is fair and as it is designed to cover all departments and branches'	'As far as I know, the internal audit coverage for banks; branches is once a year'	'As an external auditor, I agree that internal auditors monitoring of internal controls is reasonable'
Fourth interview	'These programmes are updated from time to time, also the bank. Have internal audit manuals'	'For branch audits, it should be conducted once a year according to the regulations of the bank of Sudan'	'They are monitoring and evaluating the internal control system regularly'
Fifth interview	'These audit programmes are very detailed, describing all procedures needed for internal auditors to conduct their work'	'As our bank has no internal auditors in the bank branches, we used to audit our branches every year'	'We implement all procedures in the internal audit manual regarding the internal controls'
Sixth interview	'We maintain internal audit programme'	'Like most of the banks in Sudan, we haven't internal auditors in branches. The internal audit department relies on the annual audits of the branches'	'We check that the internal control system is operating effectively'
Seventh interview	'During the last year we engaged with an external consultant to update our internal audit programmes'	'We used to audit our branches once a year'	'We used to monitor the internal control system by ensuring that procedures are in place'
Eighth interview	'These audit programmes are written and well documented'	'It usually conducted once or twice a year as we have a small number of branches'	'We implement all procedures in the internal audit manual regarding the internal controls'

6-4

Interview	External auditors reliance decision on the work of internal auditors
First interview	'I can not place complete reliance on the work of internal auditors'
Second interview	'Generally speaking, we can rely on the work of internal audit function when internal auditing staff are qualified and if they has clear scope'
Third interview	'In Sudanese banks it is very difficult to put full reliance on the work of internal auditors'
Fourth interview	'As long as I am not relying on the work of internal auditors in banks. In Sudan, it is very unusual for the audit fees to be reduced because of reliance decision on the work of internal auditors'

6-5

Interview	Application of Sharia audits
First interview	'Internal auditors will not pass the transaction if it is including usury or any other transactions financed by the bank are prohibited by the Islam, but I think they need more training in Islamic financial issues'
Second interview	'I think most of the internal auditors in banks are not aware enough of Sharia audits and they need to more about it'
Third interview	'The problem is that most of internal auditors in banks are not experts in the Sharia issues'
Fourth interview	'The quick turnover of internal audit employees within their banks made internal auditors not aware of these Sharia audits'
Fifth interview	'I can say our experience in the Shaia audits is still in it infancy'
Sixth interview	'Generally, in Sudanese bank the issue of Sharia audits is still a new experience and most of internal audit staff needs to be trained to conduct it properly'
Seventh interview	'Sharia audits still need to be developed in Sudanese banks due to lack of training in this area although the Bank of Sudan conducted a training course but I think we need more training'
Eighth interview	'In practice, internal auditors in Sudanese financial institutions are away from these concepts and they need more training in the area of Islamic financial regulations'

Appendix 7

Interview questions:

1. Objectivity questions:

What is the reporting level of the internal audit department at the bank?

What is the organizational level of the internal audit departments?

To what extent does the internal audit department have access to the bank records, documentation and employees?

2. Competence questions:

To what extent is the internal audit staff in banks competent, in terms of experience in auditing, training and educational background?

Is the bank management encouraging the internal audit staff training?

To what extent do internal auditors in banks have knowledge of new trends and techniques of auditing and internal auditing?

3. Work performance questions:

Is the internal audit department uses internal audit programmes?

To what degree do the internal audit departments are cover the bank's departments and branches?

To what extent do internal auditors in banks monitor the internal control system?

4. External auditors' reliance decision on the work of internal auditors questions:

As external auditor, do you rely on the work of internal auditors?

5. Application of Sharia audits in Sudanese banks questions:

Do you think internal auditors in the bank apply Sharia audits?