

**T.C.
ISTANBUL AYDIN UNIVERSITY
INSTITUTE OF GRADUATE STUDIES**



**THE EFFECTIVENESS OF THE INTERNAL CONTROL AND INTERNAL
AUDIT IN THE BANKING SECTOR OF AFGHANISTAN**

THESIS

SAYED BASIR AHMAD AYOUBI

Department of Business

Business Administration Program

August, 2020

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MASTER'S THESIS

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(Y1712.130116)

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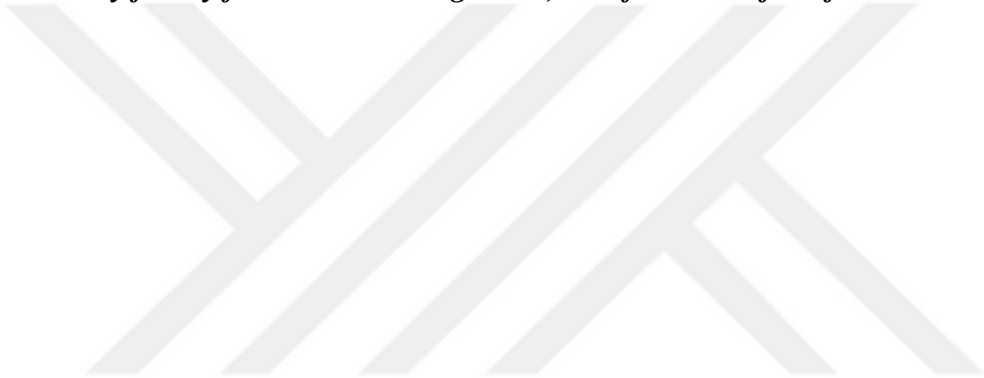
DEDICATION

I hereby declare with respect that the study “The Effectiveness of the Internal Control and Internal Audit in The Banking Sector of Afghanistan”, which I submitted as a Master thesis, is written without any assistance in violation of scientific ethics and traditions in all the processes from the Project phase to the conclusion of the thesis and that the works I have benefited are from those shown in the Bibliography. (06/08/2020)

Sayed Basir Ahmad Ayoubi



To my family for their encouragement, belief and love for life as well as my friend.



FOREWORD

Firstly, my greatest thanks go to the Almighty God for giving me the guidance, power, wisdom, and determination to complete this task. Secondly, I would like to express my sincere appreciation for his valuable guidance and understanding of me during the study to my advisor Asst. Prof. Dr. ÖZGE EREN.

I thank my parents in particular for their unconditional support and unreserved effort during the thesis and throughout the program. At this opportune moment, I would like to thank all the respondents who took part in filling out the questionnaire because it would be impossible to complete this project without them.

Lastly, to my friends those who encouraged me, whom I did not mention their name, I would like to express my deepest thanks by offering all the necessary support in my endeavor.

August 2020

SAYED BASIR AHMAD AYOUBI

THE EFFECTIVENESS OF THE INTERNAL CONTROL AND INTERNAL AUDIT IN THE BANKING SECTOR OF AFGHANISTAN

ABSTRACT

Internal audit (IA) has become a major and fundamental feature of companies to achieve their goals and protect their assets nowadays. Current business dynamics have made the development of successful internal control structures necessary for almost all large organizations. The banks are exposed to many risks every day and, for this reason, an organized and effective check is needed for the detection and treatment of risk so that its work can be smooth and stable. Financial institutions have different challenges, Fiscal, financial and liquidity threats included. In managing these ordinary circumstances, internal audits must be implemented and reciprocated better. In the current World, It is extremely important to stress that the financial authorities are unable to solve all their problems and to substantially reduce those issues by using internal audit and quality control systems.

Main objective of the study was to look at the efficacy of internal control and internal audit results in Afghanistan's banking sector. The descriptive and cross-sectional analysis has been used for this study. The data are collected from both primary and secondary sources. Secondary sources were taken from numerous existing records and books. Primary data were collected from 13 bank employees with higher staff and employees using administered questionnaires. Samples are chosen randomly and about 164 employees from banks in Herat, Afghanistan. In the first part, we did analyze the reliability of the respondents and it was reliable since the Cronbach's alpha is 0.840 and it means high reliability. The second part in the analysis was descriptive by showing percentage and frequency. I have had two independent variables (Internal Audit and Internal control) and my questionnaire was in two-part one is about internal audit and another is about internal control. I used Chi-square to analysis the independent variables. I have had five hypotheses, the first one which is (The security provided by the internal control) accepted because P-value is 0.013. The second

hypothesis which is (Policies, changes, and updates integrated into the internal control) accepted because P-value is 0.004. The third hypothesis which is (Internal audit independence) accepted because P-value is 0.000. The fourth hypothesis (Clarity of responsibilities, policies, and organogram in the internal audit) is accepted because P-value is 0.000. last hypothesis (The consistency of certain operations within the internal audit) is also accepted because P-value is 0.000.

Keywords: Effectiveness of internal Audit, Effectiveness of Internal Control, Banking sector.



AFGANİSTAN'IN BANKACILIK SEKTÖRÜNDE İÇ KONTROL VE İÇ DENETİMİN ETKİNLİĞİ

ÖZET

Bu çalışma İstanbul Aydın Üniversitesi MBA programının tamamlanmasında mezuniyet aşamasında yazılmıştır. İç denetim günümüzde şirketlerin hedeflerine ulaşmalarını ve varlıklarını korumalarını sağlayan temel bir mekanizmadır. Mevcut iş dinamikleri neredeyse tüm büyük organizasyonlar için özellikle finansal kurumlar için başarılı iç kontrol yapılarının geliştirilmesini sağlamıştır. Finansal kurumlar, finansal, operasyonel ve likidite riskleri dahil olmak üzere çeşitli zorluklarla karşılaşır. Bu olağan durumları yönetmek, izlemek ve yeni bir iş ortamında daha iyi karşılık vermek için iç denetimi uygulamak zorundadırlar. Önemli finansal kurumlardan biri olan Bankacılık kurumlarının gün geçtikçe maruz kaldığı birçok risk vardır. Sorunsuz ve istikrarlı bir işleve sahip olabilmek, riskleri tespit etmek ve tedavi etmek için organizasyona ve etkili bir kontrole ihtiyaç duyulmaktadır. Bankaların karşılaştıkları tüm sorunları çözemediklerini ve bu sorunları önemli ölçüde azaltmak için İç Denetim ve İç Kontrol Programlarını kullandıklarını vurgulamak oldukça önemlidir. Çalışmanın temel amacı, Afganistan'ın bankacılık sektöründe iç kontrol ve iç denetim sonuçlarının etkinliğine bakmaktır. Bu çalışmada hem betimsel ve kesitsel istatistik analiz ve testler kullanılmıştır. Çalışmanın verileri hem birincil veriler hem de ikincil kaynaklar kullanılarak toplanmıştır. İkincil kaynaklar mevcut çok sayıda kayıt ve kitaptan alınmıştır. Birincil veriler ise, rasgele örneklem ile 13 farklı banka çalışanından toplam 152 kişilik bir gruba (164 dağıtılmış ancak 152'si kullanılabilir niteliktedir) Çalışmanın bölgesi ise Afganistan'ın Herat eyaleti ile sınırlandırılmıştır. Çalışmanın İlk bölümünde de, anketin güvenilirliği analiz edildi ve Cronbach alfa değerinin 0.840 oldukça güvenilir bir değer olduğu belirlenmiştir. Bağımsız değişkenleri analiz etmek için ki-kare kullandım. Beş hipotezim oldu, ilki (iç kontrol tarafından sağlanan güvenlik) P değeri 0.013 olduğu için kabul edildi. P değeri 0.004 olduğu için (iç kontrole entegre politikalar, değişiklikler ve güncellemeler) ikinci hipotez kabul edilir.

P-deęeri 0.000 olduęu iin (İ denetim baęımsızlıęı) kabul edilen üçüncü hipotez. D-hipotezi (İ denetimde sorumlulukların, politikaların ve organogramın netlięi) kabul edilir, ünkü P deęeri 0.000'dir. son hipotez de (i denetim iindeki belirli operasyonların tutarlılıęı) kabul edilir, ünkü P deęeri 0.000'dir.

Anahtar kelimeler: İ Denetimin Etkinlięi, İ Kontrolün Etkinlięi, Bankacılık sektöri.



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ABBREVIATIONS

AAA	: American Accounting Association
AAOIF	: Accounting and Auditing Organization for Islamic Financial Institutions
AICPA	: American Institute of Certified Public Accountants
BMA	: Bank Millie Afghan
BP	: Pashtany Bank
BRSA	: Banking Regulation and Supervision Agency
COSO	: Committee of Sponsoring Organizations of the Treadway Commission
DAB	: Da Afghanistan Bank
FEI	: Financial Executives International
FMFB_A	: First Microfinance Bank of Afghanistan
IA	: Internal Audit
IC	: Internal Control
ICAG	: The Institute of Chartered Accountants Ghana
IFSB	: Islamic Financial Services Board
IIA	: Institute of Internal Audit
IMA	: The Institute of Management Accountants
SPSS	: Statistical Package for Social Science

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I. INTRODUCTION

A. Background of the Study

The most important and effective financial intermediary is the banking system and it has many affected and big roles in the development of countries nowadays. Two basic functions of a banking system are: money transfers and financial services. The financial system is produced by trust to disrupt the movement of money within an economy by creating a failure or a lack of confidence, which will adversely affect manufacturing and financial decisions by raising the cost of capital and threatening small savers' investments (Gençoğlu, 2011). Therefore, the banking sector needs internal control and internal audit to evaluate and monitor the system to have good efficiency. Like other business organizations, Banks by use of economic resources and human will achieve their goals and objective.

It is the most important influences toward achieving economic advancement and expansion in any country is having a strong and efficient banking system so that, in addition to attracting deposits and generating strong monetary resources, by investing in manufacturing and increasing productivity, Growth, development and economic prosperity. But if the banking system fails to perform well for various reasons, it will have many problems, Therefore, preventing the harmful effects of banks' problems and failures to other segments of society is one of the issues that make the importance of bank supervision clearer.

Transformation and change, competition and contention, risk and venture, finally unexpected events are all features of today's business environment. In this situation, the business organization and businesses will face many problems and challenges on the way of achieving their goals. The organizations and businesses are always looking and searching to find a good solution and way to archive and set their goals. One of the most effective and impressive solutions is having good internal control and an internal audit system which is efficient and effective for the organizations. The task of internal audit is so critical for development in organizations

and enhancement of the internal control system that in recent years many law enforcement agencies and supervisory agencies have been entrusted with the task of establishing internal audit units.

The IA role is an important element of continuous IC monitoring, the role of making an independent assessment of the appropriateness of the policies and procedures implemented and the degree of compliance with them. It is critical that the internal audit role retains its independence from the bank's day-to-day operation, and that it has access to all of the banking unit's activities, including the activities of its subsidiaries and affiliates.

Internal auditors openly examine internal controls and, if they detect weaknesses, provide the necessary remedies to correct them as per the requirements of the Organization of Internal Auditors, the range of both the internal audit operation should include assessing the adequacy and effectiveness of the internal control system and assessing the consistency of the performance of the staff in fulfilling the responsibilities assigned.

The idea of ' internal control ' has in the past been limited to the principle of ' internal control.' In 1930, The system of internal control was described as the management of the accounts system and related office procedures in such a way that the work of one employee performing his own prescribed duties on an independent basis continues to monitor the work of another as to certain elements which may involve fraud (Lawrence B. Sawyer, Mortimer A. Dittenhofer and, James H. Scheiner, 2003).

If businesses fail abruptly the often-resounding question is, "What went wrong? "The common cause is a malfunction within the IC system. IC is a method which guides an organization to achieve its objectives, including organizational performance, transparency in financial reporting and compliance with relevant legislation and regulations (Annette Schandl MSIB, CPA | Philip L. Foster MBA, ARe, ARM, AIC, CPCU. , 2019).

COSO (the Committee of Sponsoring Organizations of the Treadway Commission) is an organization which focuses on the guidance of the IC system, they made a framework which is designed to help business and assess. The COSO has five major components (Control Environment, Risk Assessment, Control Activities,

Information and Communication, and Monitoring Activity) and each of them has their own function to help and reduce risk and assess the commercial.

The internal control system is not only internal audit and internal check also financial and the system of controls that established by management to reach and gain their goal and aim in the business in organizations or banking system in an orderly manner.

The effectiveness of the Internal Audit and Internal Control Systems in the Banking sector of Afghanistan will be discussed in this study. The first bank was established in 1933 in Afghanistan by the name of (Bank-e-Mille Afghan) after that many private and public banks established (BMA, 2015). In 1939 DAB (Da Afghanistan Bank), with 120 million Afghani primary capital, was officially established as the central bank of Afghanistan. It controls both banking and money management activities in Afghanistan, with 47 branches in Afghanistan. In the thesis, we will have empirical research about the effectiveness of internal control and internal audit (DAB, 2019).

B. Problem Statement

Effective and efficient use of resources to meet the organization's objectives and provide relevant and reliable financial information that can be useful in decision-making and accountability is now one of the key management strategies. Definitely, the continued effective existence of every company, including banks, needs sustainable improvement through the recognition and evaluation of risks and their management. The embarrassment in corporate accounting and the ensuing uproar for honesty and trust in reporting resulted in two disparate but consistent outcomes (Arena, 2009).

An efficient internal control system as one of the corporate governance mechanisms is essential for achieving health and stability in all financial institutions. It is such a system that can guarantee the achievement of the company's goals and improve its long-term profitability (The Institute of Internal Audit (IIA), 2013). Besides, an effective and independent internal auditor can help build a strong internal control system, as the internal auditor's performance by timely identifying the weaknesses of the internal control system provides adequate information for

management to respond appropriately to these weaknesses and take the necessary corrective action. Proper implementation of internal audit and effective and efficient internal control systems will ultimately lead to the health and stability of the banking system.

Internal auditors generally provide two types of services: assurance and advisory services. Assurance Services are the services in which the auditor expresses his / her opinion on the outcome of evaluating or measuring a matter based on predetermined criteria to increase user confidence. Evaluation and testing are aimed at conducting an independent evaluation of the processes of governance, risk management and control of the organization. An important issue concerning internal audit is that internal auditors are also used as internal consultants (Urton, 2003; Vallabhaneni, 2020).

Recent developments in the banking system have increased the need for prudential supervision to maintain stability and confidence in the financial system. This has become especially important with the global financial crisis and the bankruptcy of many banks. Effective banking supervision is one of the key preconditions for preventing the financial crisis and ensuring the proper functioning of the economic system. The primary aim of banking supervision is to preserve the financial system's stability and increasing its trust by rising the risk to depositors and other creditors. Accordingly, supervision aims to ensure that banks and credit institutions operate safely and with sufficient capital and resources to meet the risks they face.

One of the most important mechanisms for monitoring and directing the effectiveness and efficiency of organizations, especially banks and financial institutions, is the concept of internal control. Given the importance of this issue, the WB Banking Committee has in many of its documents considered the establishment of a robust internal control system as a prerequisite for the effective management and performance of banks and financial institutions (Chorafas, 2001).

The internal auditor is an autonomous, impartial monitoring and consulting practice intended to generate added value and enhance the organization's operations (IIA, 2010). Internal Audit helps the company accomplish its targets by taking a structured and comprehensive approach to evaluate risk management efficacy, compliance monitoring and organizational governance processes (Institute of Internal

Audit, 2003). Internal auditing plays a significant part in continuous assessment of quality monitoring, risk management, and governance structures and procedures in the banking areas with the main emphasis on supervisors. In fact, corporate and bank auditors use risk-based methods to classify their job plans and actions. An internal audit is an independent evaluation performed by the management of a bank or an entity to examine the internal control system. Internal Audit evaluates and reports on the adequacy of the IC system in terms of effectiveness and efficiency and the use of organization resources. Internal Audit has traditionally been part of the internal control system that helps manage entities perform their duties by revising and assessing IC.

C. Significant of the study

The significance of the research cannot be overemphasized because the study shows whether a proper and effective IC system positively assesses the high level of governance and accountability in the public sector as well as the negative part of the ineffective and inefficient internal control system. Therefore, it will help the policy formulator and decision-makers in business and entities to know which kind of policy can bring an effective and efficient internal control system to the organization.

Banking sector day by day especially in the world of technology and nowadays it grows up suddenly and become one of the most important financial intermediaries, therefore, to monitor and supervision we need to have an effective system of IC so it is very important subject which can help the top managers and employee of banks to know the value of IA and IC in the bank.

IA assists and helps the banking sector to make sure that they have proper control, governance and risk management in place (Boynton, 2002). The internal audit must be independent activity and it can be a person (auditor) or team (auditors) who can be attending objectively findings and make recommendations for remedial measures. Internal control plays many roles in the organization especially the banking industry which they have these tasks to do mainly (evaluate the internal control, monitor governance, risk management and report and advise).

While the purpose of the internal audit is to assist the management of the company in carrying out its duties and responsibilities effectively, the goals of the internal audit can be summarized as follows (Tandon, 2010; Institute of Internal Audit,

2003):

- Examine the structure of internal control.
- Perform tests of compliance with internal control procedures and content tests.
- Assessment of adequacy of internal control systems in terms of design and effectiveness.

This research has great benefit for the banking sector of Afghanistan which they will understand how much the IC and IA is important. The research will explain the fraud and effectiveness of internal control and internal audit in the banking industry. The customers and investors will be confident to know the reliable and effective system for the safety of their deposit. Management will also be able to reduce the risk in the banking sector and have a good system of internal control.

D. Objectives of the study

The goals of this research are:

- To identify the lack of proper internal control and its cause.
- Describing the role of internal audit in Afghanistan's banking sector.
- Evaluation of internal audits performed in the banking sector.
- To analyze the extent of the internal auditor 's expertise with regard to the quality of internal audits in Afghanistan's banking sector.
- Determine the key component of an efficient internal control function.

E. Research hypothesis

H1 : The security provided by the internal control system increases efficiency in the Banking sector.

H2 : Policies, changes, and updates integrated into the internal control system boost efficiency in the Banking sector.

H3 : Internal audit independence has efficiency in the Banking sector.

H4 : Clarity of responsibilities, policies, and organogram in the internal audit system have efficiency in the Banking sector.

H5 : The consistency of certain operations within the internal audit system causes efficiency in the Banking sector.

F. Definitions of terms

Audit: In accounting the audit plays a significant role. The “Audit” comes from the (audio or audio) Latin word which means listen. By the time the meaning of “Audit” changed to control, check and revise. As the International Accountants ' Federation (IFAC); An audit is frequently associated with control, although this association is not as negative as in the case of classic inspection (Morgan, 2009). An auditor has collected, reviewed, and analyzed facts and business records to check and track that the employee is following the rules and regulations. The three key styles of audits are (external audit, internal audit and internal revenue service audits).

Internal audit: The auditors recruiting the company to ensure that laws and regulations are complied with and that financial reports and data collection are accurate and timely (Mark S. Beasley, Frank A. Buckless, Steven M. Glover, Douglas F. Prawit, 2016).

Internal control: Internal control is the collection of activity and procedure and policy which prevents an employee from committing fraud. Internal control includes five elements (Environmental control, risk assessment, behavior management, information and communication, and monitoring) (COSO, 2013).

Bank: Banking industry is an institution which handles cash, credit, and financial transaction or in another word financial intermediary that gives loan and deposits.

G. Thesis outline

The thesis comprises five sections. The first section consists of a context to the study, problem statement, and significance of the study, study goal, research question, research hypothesis, study value and the outline of the thesis. Section two will be about the literature review (banking sector in Afghanistan, internal control, internal audit, COSO and the history of them. In the third chapter, we will discuss the methodology of the research and methods of how to collect data and how to analyze the data. Chapter four will be the finding of the study and analysis of the data that we collected. In

conclusion, it means chapter five will discuss the conclusions and recommendations.



II. LITERATURE REVIEW

A. Introduction

The range of literature and ideas on IC and its influence on the governments' corporate and management of public finance is discussed in this chapter. This chapter mostly focuses on former investigators' papers about imperial and theories of internal control and its evidence. Moreover, a summary of the Afghan public sector internal control is appraised essentially with respects to constancy facilities and rules on the process and purpose of IC in Afghanistan's public sector especially banking internal control in the country.

One of the same kinds of research was conducted in Saudi Arabia regarding to the internal audit and studied numerous approaches regarding to the independence, competence and management commitment and support of internal auditors. One of the most significant issues facing internal audit in the public administration of Saudi Arabia was the shortage of competent employees (Alzeban, 2013).

(Abraham, 2015) studied the determinants of internal audit in Ethiopia and found out that adequate, competent internal audit employees as well as the support of management had significant relationship with the internal audit functions. The other hypotheses such as management perception of internal audit values, approved internal audit charter and organizational independence, were insignificant.

(Belay, 2007) Relates competence to a person's ability to conduct a profession or role adequately built on the level degree or of training, industry experience, and employee's efforts to continue skillful expansion. In this regard, (Ibrahim M. S., Shokiyah, A. & Baharud-din, Z., 2014) measure the IA team's educational knowledge, expertise, abilities, and professional development efforts. Likewise, internal auditors must be competent at job and educational level in order to enhance IA's effectiveness (Burnaby, 2009). Therefore, internal auditors must know interaction, organizational and information technology (Abu-Musa, 2008). As per IIA, (2011) internal auditors should have the experience, qualifications or gain the other qualifications necessary to

carry out their duties.

Prior literature discusses freedom in the aspect of external auditors (Cohen, A. & Sayag, G., 2010). But today emphasis is placed on the independence of the internal auditor (Subramaniam, N. & Stewart, J., 2010). IA efficiency is rooted in independence; because without IAD independence, IA effectiveness cannot be achieved (Santagato, L. & Vanasco, R. Skousen, C., 1996). Independence means freedom of mind and autonomy in appearance (Subramaniam, N. & Stewart, J., 2010).

(Abu-Musa, 2008) Defines and explains independence as per following:

“The definition of independence is usually used to mean the auditor's right to be honest and impartial in its analysis and appraisal and not to be under undue pressure from either side to the degree that this might bias his / her opinion.”

According to Goodwin & Yeo (2001), the internal inspectors and AC would maintain a high degree of relations, if the AC consists of independent senior executives. Close AC and IAD ties can improve internal auditors' autonomy and have a positive effect on IA's efficiency (Subramaniam, N. & Stewart, J., 2010).

In the review of successful audit preparation and control, this study has assessed audit performance (Prawit, D., Smith, J. & Wood, D., 2010), IA fieldwork, finding and reporting, following up IA guidance and communicating effectively with external auditors. At the institutional level and at each individual commitment, IAD should properly plan operations (Prawit, D., Smith, J. & Wood, D., 2010). For each audit commitment, IA plan includes policy and strategic preparation, audit priorities and audit programs (Yismaw, A.W. & Mihret, D.G., 2007). Here, the annual IA plan seems to be the primary basis for coordinating the function of IA with the external auditors, AC and management expectations (IIA, 2001). The IA director must set threat-based plans according to ISPPIA to determine IA activity priorities, in line with the organizational objectives (IIA, 2010). A specific number of audit employees and the time needed in the advancement of field works (Tandon, B., Sudharsanam, S. & Sundharabahu, S., 2010). As a result, the audit plan allows IAD to achieve its goal and measure the efficacy of IA (George, 2015). SPPIA 2240 includes the creation of IA programs for inner auditors and documents that meet IA goals (IIA, 2011). Before implementation, these IA programs must be accepted.

The efficacy of IA is determined by management support (Yismaw, A.W. &

Mihret, D.G., 2007). The internal auditors expect top management assistance and support because IA operations are performed in a complicated and supportive environment.

As per SPPIA of 1110 organizational independence, domestic auditors should be supported by top management, BOD, auditors' cooperation (IIA, 2011).

(Stocks, K., Schueler, D. & Albercht, W., Howe, K., 1988) Four reasons identify for raising IA performance. The four considerations provided top management assistance, an appropriate business climate, outstanding internal audit employees' efficiency and a suitable business environment. On the other hand, (Sarens, G. & DeBeelde, I., 2006) note that full recognition and respect for IA in the organization depend heavily on assistance from the top management. Finally, (Abu-Musa, 2008) explained management assistance as a motivation for domestic auditors to be provided by senior management. To provide IA with education and training programs; sufficient IAD budget, IA Team bonuses, rewards, and IA recommendations are accepted and implemented.

1. Theoretical Framework

Different people at different levels have a different vision about the meaning of internal control. Dissimilar ideas of individuals have caused misunderstandings among manufacturers, officials and those who are interested in internal control. It is obviously clear that problems may occur inside firms and the banking system. If the laws and regulations have not clearly defined the terms, then the situation gets even worse. To find out organization problems, this paper has allocated for the organization and management, requirements and expectations, staff as well as the common public section. Therefore, internal control can be defined as per the following (Code of Federal Regulations, 2000):

- Create a general description that could help the requirements of parties with different interests.
- Preparing a standard for small and medium enterprises (SMEs), private and public and also non-profit and profit goal-oriented organizations that can evaluate their control systems and have accessed on how to expand the systems.

2. Historical development of internal control

Internal control became very prevalent particularly from the point of auditors' view; this issue has been proved approximately by 1900 business and accounting authors' papers. Internal control, as a new concept is an indicator of management as well as auditors. Though a long time in the past both auditing and accounting have existed but the internal control has not existed on the same date with auditing and accounting. Mainly in this paper, it is tried to indicate the summaries of research in the past to give some more information about the improvement of internal control. As per Stone (2009), the primary symbols of internal control, especially audits of internal affairs are found able in the archives of Mesopotamian people, round 3600 to 2200 BC. He cites most S of Kenneth, it was usual to prepare overviews by scribes other than those who provided the initial payment list (Ramamoorti, 2003).

Furthermore, it is revealed by the periodic documents that dots, codes and small marks next to the numbers showing that performed figures had been checking. The need for audit control gets back to earlier years but it advanced in recent years besides it has always been linked with accounting and its operations. The audit control primarily emerged in prehistoric periods with the exchange of products among individuals from historical information discovered. To conduct credible operations, these primitive companies emphasized the need for accounting and audit control. According to the written documents, ancient Babylon-Nineveh society used bookkeeping in their daily businesses to keep the transparency of accounting in their financial transactions in 300 BC (Flemming, 2003). An institute of accounting had established for doing the daily financial issues of the city-state by the congress of early Athens at about 300 BC. Also, together "Responsible" and the accountants monitored the accounts of high-prestigious individuals they had withdrawn from public accounts as well as the public credits to towns without paying interest by bankers. Accordingly, we discovered the "inspector" in the majority of ancient Greece, charged with different control tasks. Italy marked accounting's rebirth in the middle ages and Pisa has its licensed auditor system (Ramamoorti, 2003). The first formal professional auditors' union (Colegio de Raxonati) was established in Venice Italy in 1581. Lots of people were soon influenced by the institution of the state which was rigorous. Throughout the ministry of finance, audit controls were also observed in England, where three individuals started three diversified ledgers, one of them was saved by the Chancellery

Secretary, one of them by the accountant of treasurer and the last one by the Kingdom's representative. 1525 was the first date in England we encounter the term "auditor", it was a form of IC and all the sheets were reliable. In England, crises of 1825 and 1836 caused improvement and methodization of audit for preventing any disruptions of manufacturing therefore, modern audit function was first institutionalized in England. Internal audit is currently a profession that has been advanced and accepted. If someone were involved with the audit and internal auditing service at about ten years ago, defiantly facing the unnatural condition for observing role, service area and method to nursing. In case we take after the advancement of inner control, ready to understand that sometime beforehand 1941 when the association of Inside Inspectors was established, those days' audit control was just limited to checking if any mistakes occurred in the process of hand data entering soon after the accomplishment of data entry. The internal auditor's concept is linked to the sense of safety while its main goal is to identify fraud (Pickett, 2003). As part of the supervision process, the audit function first emerged and was an additional and helpful function. Later in 1941, the institute of internal auditors IIA was introduced and professional standards were emphasized. In addition to these innovations, both the Audit Committee and the Board of Directors and the external inspectors helped to boost the internal auditor role. Lastly, more or fewer changes have been prepared in the internal inspectors' perspective. On the one side, they acquired a full shape and rose with extra operations and duties but on the side, they reformed their relationship with auditees.

B. Internal Control

Njanike and Mutengezanwa (2001) generally defined internal control as step-by-step courses and procedures set up by an organization's leadership to help the association attain its objectives and goals and comply with legislation and rules. The following will give further definition and meaning to effectiveness, productivity, and consistency. The effectiveness and efficiency of the entity's operations are aimed at addressing the company's business and group goals, accomplishing goals and guarding the resources of the company. The other reasonable assurance category that internal controls pursue to deliver relays to the consistent financial recording that includes associated financial accounts. Thirdly, inner control provides an evaluation of rule and regulations compliance. The above definition's distinct aspects deal with distinct

elements of the institute. The derivation of the internal control mechanism from the above description can be seen as functioning at specific levels of efficacy. Categories of the above are possible to be evaluated based on how each element succeeded in obtaining its goals of accurate financial reports, compliance with rules and protocols, and protecting the entity's assets. In its manifest on the declaration of inner control structure distributed in 1995, the American Institute of Certified Public Accountants (AICPA) defined it as a carried out process by those who are in charge of rule, administration and other staff providing rational assurance as to the attainment of the objections raised by the entity (Weli, 2018);

- Taking care of the fixed and current assets of the organization.
- Making sure of the accuracy
- Checking the accountancy, rigor and consistency of entered data.
- Advancement and effectiveness of operations.
- Encouraging to follow up the policies of controlling the financials accounts.

The COSO defined internal control on its report as per the following: “internal control is a method established to ensure that the business's goals are accomplished with reasonable certainty.” In 2008, Price Water House Coopers described the internal control system as a system consisting of all techniques and control measures put in place by the committee of directors of a company Management to ensure that efficient processes are carefully progressing. Since different definitions given on the topic by earlier authors and officials, internal control represents the following main ideas:

- Internal control is an important and ongoing process in an institution which unifies the entire operations of the entity.
- It's a human related process so, it doesn't work by itself therefore, someone must implement it such as organizations' authorities, managers or other employees.
- Only reasonable assurance can be given as it's a reasonable assurance (Annette Schandl MSIB, CPA | Philip L. Foster MBA, ARe, ARM, AIC, CPCU. , 2019).

The inner control scheme provides an organized sequence of tasks and processes in an embedded control scheme which sets leadership and underlines the efficient function of the organization (Tang Chi Cheung, 1997).

Risk evaluation is a main part in the design of the internal control scheme. Internal auditing is a tool for the approach and risk factor evaluation. To guarantee the best cooperation with the Board of Director of the company, to guarantee assets, to discover fraud and fake data, to deliver precision and completion of the accounts and to guarantee that the appropriate financial data is readied in good time, the internal control scheme may implement all managerial techniques.

The internal control system describes a structured and well-organized scheme which is connected straightly to the laws governing the company's management and making sure the diverse interests of the firm. The following are the subsystems of the internal audit scheme:

- Internal Audit,
- the organizational structure of the company,
- Written manuals
- the assessment of long-term and short-term planning,
- the markets policy - procurement and staff of the company,
- the assets and portfolio management
- Cycle and generating products and services.

Finally, the effectiveness of an organization is directly related to the internal control scheme of that business. Although the scheme differs from business to business according to their size, nature and activities structure of the organizations. When developing a system of internal control, the corporate structure, adequate human resources preparation, and the company's accounting department play an important role.

The business strategy, the proper preparation in human resources and financial managers in the corporation played a significant part in establishing an IC structure. Thus, the following principles are required in establishing a reliable inner control system:

- Proper methods for accounting,
- Distribution of roles,
- Editing of recognized persons ' numerical and authenticated results,
- Book protection against unreliable individuals,
- Daily resources check of the company,
- Covers all the company's operations,
- Operational standardization (faster and easier work control),
- Inventory management,
- Modern systems of electronic information and communication,
- Suitable methods to define, assess and handle threats early.

The regulatory mechanisms and safety valves of each internal control system are intended to guarantee that the firm functions properly and quickly responding to hazards. Safety valves are lined to fundamental operations of the organization and concentrate primarily on the examination of inner working processes such issues like staff laws and regulation or quality assurance. Preventive safety valves seek to detect mistakes that affect the correct operation of the firm. Repressive safety valves work to cope with inconsistencies in cases where there are obstacles to the appropriate functioning of the process of the company (Mark S. Beasley, Frank A. Buckless, Steven M. Glover, Douglas F. Prawit, 2016).

A significant requirement for the efficient operation of internal control schemes, safety valves should be simply and adequately defined, so that it is easy for all staff to understand and accept them. With the requisite approval on access issues, advanced safety valves aim to keep the property effectively. For all the stakeholders in the business, general safety valves depend on a company's organizational structure in terms of specified, policy-making and enforcement. Besides, it has to do with certain things such as workers recruitment and breakdown.

1. The Purpose of Internal control

The aim could be defined as follows for an internal control system (Othman, 2009):

- It should be an organizational method to execute defined strategic goals and allow the assessment by evaluating and comparing the results to the original goals.
- To meet critical requirements, it should travel and operate in an institutional or company manner. Also, the system must be scalable and effective, tailored to the circumstances and ensure its competitiveness in a competitive environment.
- The utilization of available resources should be able to be used and properly managed, development used, resources of human and property safeguarded. This succeeds in helping customers well, at the same time.
- It should be regulated by organizational and corporate laws including the safeguards and requirements under which companies avoid attaining their highest targets, maintaining the robustness and sustainability of the organization.
- The internal control mechanism should also contain the assessment of the system's operational effectiveness.
- It will assign duties outstandingly between the multiple departments and the company's employees. Legislation must also create partnerships between them and prohibit disruption of work to make an important contribution. It should be cleared if any form of judgment-authorizations is common to all species that can be interpreted when extended across the hierarchy pyramid following the carrier's orders.
- It should prepare creative work with free development initiatives and not place any limitations on carrier development.
- Ultimately, to contribute to harmony and harmonious coexistence among its roles, it should strive to develop unique safeguards.

2. Basic principle of Internal control

To be effective and to take all significant matters into account for the auditors, the internal control mechanisms should obey those standards, according to the following principles (Hughes, 1998):

- **Adequate Staffing:** Adequate recruitment for professional management in modern business and particularly at a period of developments in the international market should be closely observed. Close consideration must also be given to the appropriate assessment and manipulation of the labor capacity of the stresses on mere untrained staff. Such as a consequence, the estimation and utilization of the workers are one of the main success operations of any public or private enterprise. Appropriate and successful people should be in the business. A qualitative and quantitative structure of the whole hierarchy of employees must be sufficient.
- **Management decentralization:** To make sure of the distribution of responsibilities. To describe the roles of each employee, the difference should be explicit and relevant. Accordingly, given the grade of organization and related personnel, the management and any part of the business must ensure that they delegate as much expertise as possible to all managerial grades, as well as being entirely responsible for the outcome of the operations. Finally, an examination of the activities and calculation of the results of both executive agencies and related entities should be maintained according to the measures taken.
- **Separation of duties and responsibilities:** There should be a clear separation of roles and obligations at all organizational grades. The strict classification should also be provided, especially in matters relating to the viability of the company, such as property, cash, inventory, production departments and duties.
- **Provision of Authorization:** it's used against third parties for the dealings and image of the business. Which needs board approval. The payments presuppose sufficient authorizations for those governed in the sense of the operating rules and procedures.
- **Ensuring transactions:** the company must conform with current payment protocols, processes, and standards to:
 - Defining specific authorization obligations.
 - Specify the screening procedures before each transaction.

- To help you record and account for each accounting event correctly.
- to provide all purchases in a fair and structured manner at all times.
- Reduce the risk of mistake in any operation
- To provide administrators with appropriate decision-making details.
- Monitoring and inspection work: regular supervision and evaluation of workers should be carried out to ensure enforcement and to guarantee the quality of services and goods.

The tracking practice is used to afford more reliable facilities and the proper running of the business as a result.

- Timely and regular updating documentation: Data shall be provided through documents sent to the administration. Such documents need to be complied correctly, coordinated and distributed timely, consistently and arranged at all hierarchy system levels to take remedial action. Such documents must be issued on schedule and must be described as much as possible by a concise format of contrast.
- Risk-specific monitoring area: The layout of the regulator zone must represent the scope and complexity of the enterprise and the structure of the business should rely on the possibility that it will be bared in each entity's nature.
- Internal audit department: In order to track and examine the adequacy of the entire internal control process, the presence of an internal audit unit is fundamental to the company. Internal audit offers the ability for more accurate and unbiased assessment processes, which are necessary for the organization to have this knowledge, as a tool to help handle business risk efficiently (Jeffrey, 2001).

3. Internal controls Myths and Facts

Internal controls in the company are related to certain misconceptions and realities which are widespread and include the following, as shown in the figure below:



Figure 1: The COSO Internal Control — Integrated Framework “Cube”

Source: (COSO, 2013)

4. Internal control practices – (How does it work?)

IC is a means of achieving a goal no an end in itself therefore, it’s a step by step operation. Internal controls are influenced by individuals as a group and not by external auditors because they are not just creatures or types of legislation, but people at all levels of an enterprise can be trusted to provide only reasonable assurance, not complete certainty to the leadership or governing bodies or committees of an organization.

IC is starting with a good set of rules and practices.

IC is starting with a set number of tough policies and procedures.

While the independent auditors play an important role in the control system, management requires internal controls.

Internal control can be a financing matter.

Every aspect of business activities needs internal control.

Internal controls are fundamentally negative and pointless.

Internal controls are the first step for the right things to occur.

Internal control takes time out of our main deployment practices.

Internal control should be included in the business process.

C. Components of internal control

Internal control as depicted by “COSO”

COSO is an association that focuses on improving financial reporting through professionalism, active internal control and corporate governance. Five U.S academic associations support COSO

AICPA - American Institute of Certified Public Accountants

AAA - American Accounting Association

FEI - Financial Executives International

IIA - The Institute of Internal Auditors

IMA - The Institute of Management Accountants

COSO members believe that concept of internal control is the starting point for good corporate governance. For them “internal control is a mechanism established for insure that the company’s objectives are accomplished with reasonable certainty.”

www.coso.org

The following classes depend on this process:

- Efficiency and effectiveness of operations
- Trust in the financial records
- Conformity with laws and regulations

Internal controls involve five main elements, including: environmental control, risk assessment, reporting, communication and information (Boynton, 2002).

- Control Environment

It applies to the context in which the regulations were implemented. It can be alluded to as corporate culture, behavior and leadership knowledge. Ashenden (2008) reinforced this by postulating that the control system was successful when all representatives of the organization are conscious of their roles and responsibilities. Hilton (2011) suggested that senior manager activities were essential to the success of

internal controls. Good statement from leadership to staff is likely to reinforce or otherwise improve controls.

The performance of internal controls is calculated by management. The above may improve internal controls, transfer of power, employee training and good communication with company policies and procedures. Only with leading the way through instance can this be done for senior management.

- Risk Assessment

This requires the identification of risk features that are likely to impede the organization from achieving its goals and priorities. That requires recognizing the threat, explaining the risk, calculating the risk and recording it. Jonson and Kevans (2012) described hazard as the chance of failure that could be due to an occurrence's uncertainty. Risk can also be defined as the divergence from foreseen returns from returns. Risk assessment is an ongoing process of recognizing threats and find solution paths to reduce their effect on the enterprise.

- Control Activities

These are specific actions or processes that are followed by administrators to mitigate risks. Such procedures could contain the following: task division, authorization and consent, and visual inspections. Management practices enable companies to implement policies and procedures that manage defined threats appropriately. Management development monitoring practices to secure the firm's assets and facilitate the accomplishment of organizational objectives.

- Monitoring

It is essential to monitor internal controls to ensure the effective function of controls. Monitoring requires the administration and third-party application of the measures in order to detect problems and report them to the appropriate parties for disciplinary steps to be taken. The installation of a competent control program will also be incredibly cost-effective in addressing problems in a timely and secure way for the enterprise (Boynton, 2002).

Internal audit is an essential issue all around the world as an example I chose USA, Canada and Ghana which are good example of first level economy and middle level economy.

D. Internal Control and Public Sector Accountability in the United State of America (USA)

In the United States of America (USA), government officials and program directors are seeking better methods to obtain strategic objectives and enhance financial reporting. Good internal monitoring must be applied to achieve organizational goals. Also for reducing threats, strong internal monitoring often helps to handle the transition (Aduam, 2015).

E. Internal Controls and the Public Sector of Canada

The internal control regulation of the Treasury Department aims to guarantee the quality of the financial recording in internal control. Internal control and risk management is part of a firm's asset utilization. Risk, reliability data, financial information and the quality of services have to be taken in to account to achieve profitability. The internal control strategy of the Treasury Board was designed to make sure that the internal control of financial reports is efficient. Internal control and risk management are essential to organizations' use of capital. Risk, data reliability, financial information and the quality of the services and products must be taken in to account for achieving profitability (Aduam, 2015).

F. Internal Controls and the Public Sector of Ghana

This subject in Ghana has received more attention. Even if the majority of private companies are investing in the new field, the same is not possible for the public sector. Reference to the manual - Public Sector Accounting: The Institute of Chartered Accountants Ghana (ICAG), 2010, ensuring, effectiveness, efficient and economic use of public finances is the prime objective of the legal system for financial administering and accountability in Ghana. It also works on controlling government decisions and policies, accurate financial reporting data and leadership quality evaluation and strategy management (Aduam, 2015).

G. Internal Control and Internal Auditing

1. Internal Auditing

Coyle (2009) Internal Audit is an evaluation system set up by an organization that supports the organization in meeting its goals. The administration performs this role to help to perform the roles and obligations of the company efficiently. Internal audit is described by the institute of internal auditors (2015) as an autonomous, impartial insurance and consulting operation aimed at adding value and optimizing the operations of the company. This lets companies achieve their goals through the disciplined approach to risk management, command and governance analysis, and performance efficiency. The internal audit research helps to ensure that the company and its goals are compatible with institution policies and programs. We also evaluate the internal controls of the organization to determine its efficacy in preserving the firm's assets.

The internal audit work was carried out to ensure that organizational and company policies and programs adhere. We often analyze the internal control of the company to assess their efficacy in maintaining the firms' assets.

With the word "internal auditors" they mean people who are working as an entity or corporation and only advise the committee of audit and the Administrative Board concerning the valuable information. In contrast, internal auditors act a role in advising as they ensure the institutional structures of the enterprise and the effective execution of risk management policies. The internal auditors are skilled individuals who are educated and skilled in the area of internal auditing and are not separate from the organization because they operate within the firm. On the other hand, with the word "external auditors" mean the autonomous persons who audit a corporation or entity while only submitting specific information to the owners of the organizations. The external auditors shall be professional accountants and shall report on a yearly base. Reports of external auditors declare whether the accounts are in a fair mood and true. External auditors' duties are reviewing the books, annual financial statements, and the balance sheet (Pickett, 2003).

Wood (2013) states that internal auditing is a wide area in an enterprise, covering issues like finance, risk management and management control on operational performance (including asset safeguarding), financial reporting transparency, and

compliance with laws and regulations.

2. The Effectiveness of Internal Audit

Each company is different in management and the size. It's very difficult to implement an active internal control process because each organization has its requirements and needs. Nevertheless, we may list the features that an internal control system needs to make it more efficient.

Individuality is a key aspect of an internal control system's success since it enables auditors to operate without intervention and any impairments (Mihret, D.G. & Yismaw, A.W., 2007). Documents shall be submitted to the board of directors by the chief for internal control. The work of the internal auditors is recognized for this direct connection. To achieve its targets, each company needs a corporate plan that will ensure the roles of internal auditors are adequately implemented as they delegate duties. Since an organization's current leadership does not have clear, reliable information for the purpose of ensuring that organizational risk is handled, the internal audit solves this gap with its advice and repression position.

Likewise, the internal audit helps to enforce the standards of corporate governance as a modifying mechanism for accountability and thus provides value, thus protecting the interests of staff, consumers and investors. Disclosure and control are valuable business knowledge and are crucial for ensuring accountability, shareholder security and the effective operation of the firm. The effectiveness of IA is an operation that is assisted by IA Team characteristics, audit processes and practices, and organizational linkage, according to Arena (2009).

The development of an efficient system of internal control should also ensure business dealings. In general, the payment process has to be supervised and carried out in compliance with the administration standards and regulations to ensure that the registration of transactions can be regulated, which have to precede the authorization for accounting principles and laws. Reference to the organization's financial reports must be provided with the protecting documents. Four steps should be followed to better control the transactions (Wood, J., Brown W. and Howe H, 2013):

- Authorization

- Approval
- Implementation
- Inventory

Besides, it is also vital to track all procedures, processes and make recommendations where appropriate to enhance and ensure quality that internal auditing becomes more efficient. Therefore, data from committees, documents and seminars must be circulated through policy to facilitate the activity of the financial system. In particular, the scale and specifications of each company must conform to the internal control structure (The Institute of Internal Audit (IIA), 2013).

3. Audit Committee

The audit committee is a distinct and highly accountable advisory board consisting of senior management and is governed by the board's decision. The review panel, such as internal control, is an element of the board. The audit board examines key reporting and document management issues in order to understand the potential impact of the financial statements. The audit board meets at least after the invitation of the chairman of the audit committee. The audit reports are examined by the audit board, external auditors and the manager. Also, the audit committee examines the performance of IC and presents to the leadership certain conclusions and other relevant results. Some of the characters and tasks of the audit committee are as follows (Tandon, 2010):

- The adequacy of the organizational structure and the internal control system should be monitored and regularly assessed.
- To analyze the processes adopted during the planning of the reports and the details to the investors.
- It facilitates independent auditors' to make it easy for them to view the data.
- The classification of auditors and the calculation of their remuneration are subject to this provision.
- It is responsible for the development of the basic rules and procedures of the company and for the execution of decision-making.
- Exercise oversight in the internal audit department and promote its function.

- It works to set up the quarterly monitoring program.
- Finally, it is accountable for internal control outcomes.

Additionally, the commission is liable for the recompense of the auditors employed in the agency or corporation, as well as monitoring and directing them. The appropriate financial and internal management processes are a delegate. The policies, also referred to as a “whistle-blower policy,” make it possible for entities to raise interrogations and problems without fearing retribution. In the audit council, the external auditors must regularly deal with the pertinent issues to be handled internally by the committee and auditors.

4. The need for an internal audits function?

The role of internal audit is vital in helping the company to achieve its goals. Internal audit should offer management, according to Weber (2013), with the needed tools to direct the company’s operations and thereby launch a strong audit feature.

5. Internal and External auditing

There is a distinction between an organization’s internal and external review. The difference is related to the range, autonomy, monitoring system and security given by these distinctions. Registered auditors shall be appointed to report on the financial statement of the company by the board of directors. They are treated as independent of the business and provide services only at a price. Nevertheless, internal auditors are institutional workers who support managers to ensure the right control measures are in place to make sure the company goals are met. The success of the firms is depended on both external and internal auditors’ roles.

6. The Auditing in Islamic Banks

“Islamic Banking applies to a financial and banking system that is compliant with Shariah (Islamic Rules and Regulations” according to the Institute of Islamic Banking and insurance. Islamic banks are geographically spread to Africa, the Middle East, and Asia. The first commercial Islamic bank (IB) was established in 1974 in United Arab Emirates-Dubai. In the beginning, the IB did not grow quite fast but after the global financial crisis the IB share skyrocketed and today it plays a crucial role in the banking system of this country. According to Ghalait (2015, page4), “the share/

assets of Islamic banking globally riches at about 17 percent in 2013”. It is essential to know the internal auditing system of the Islamic banks as it began to have an important role in the banking sector. Two internal auditing standards are set for the Islamic banking.

These are the Islamic Financial Institutions Accounting and Auditing Organization (AAOIF) and the Islamic Financial Services Commission (IFSB). Islamic Banking audit requirements include different Basel internal audit criteria; furthermore, Shariah (Islamic Law) is also included in the auditing of Islamic banks. Hanifa (2010, Page 3) claimed that “Islamic financial institution auditing is limited not only to the legal financial audit but also to the so-called Sharia examination, which is the justification for IFLs’ creation”.

H. Auditor's work on the Internal Control

The Global Auditing Standards underline the value of internal auditing by the auditor. Internal controls, according to the ISAs, enable the auditor to gain an understanding of the culture of the company and aid him in the development of active audit policy and audit plans. The International Auditing guidelines stress the importance of an auditor’s internal controls. Internal controls, according to the ISAs, enable the auditor to gain an understanding of the culture of the company and support him in the development of active audit policy and audit plan. The auditor shall therefore exercise professional judgment in assessing the audit risk and shall establish sufficient precautions to take the audit threat to an acceptable level. Awareness of the climate of the entity helps the inspector to perform a specific type of audit-proof check. The audit approach applied is based on the control check of the audit agency.

I. Internal control objectives

IC has the following objectives as per Poubel de Castro (2009),

- Ensuring accuracy of information

The quality of information supplied to its shareholders by the company depends heavily on internal control. A manager should ensure the systems are functioning properly (Johnson and Kaven 2012). In conducting an internal audit, the quality of accounting data should be taken into account.

- Promoting operational efficiency of the organization

Ensuring operational efficiency allows an enterprise to reduce material loss and provide an essential way to perform tasks and operate satisfactorily. Internal control assists to set performance standards and strategies to establish multiple functions targeted at corporate targets. Operational performance can be assured through many different ways, from hiring and choosing qualified staff, recruitment, and education.

- Compliance with laws and regulations

Compliance with law and regulations is one of the important objectives of internal control. This also guarantees that workers cooperate with corporate policies and programs to meet operational objectives. All members of the firm need to work hand in hand to ensure the controls function effectively.

- Safeguarding of assets

The wealth of a company, used in daily operations, are tangible or intangible property. These are the entity-owned assets used in the development and distribution of services and goods. Assets must be safeguarded for abuse, fraud, and misappropriation.

- Prevention and detection of fraud

Controls are so critical in the prevention of misconduct through company processes or financial statements. Controls are very useful in preventing corruption which can be triggered by the company's activities or by the financial statement. Fraud can emerge by representatives of the company utilizing unapproved means. The main reasons and sources of corruption in the Brazilian public service have been highlighted lately by KPMG called "corruption in Brazil." The survey shows that 7% of frauds occur from poor attitude, 13% in leadership exceeding procedures, 17% and 63% respectively are stereotypical and lacking of internal control.

In addition to the aforementioned, the Ghana Public Sector Corruption Index published by Transparency International (2013 Global Corruption Barometer) It has indicated that corruption is on the rise in the public sector in Ghana.

In addition, IC form a large part of the entity 's management operations in both the private and public sectors.

J. Benefits of internal control

1. Benefits of Internal Control to the entity

In the literature revised in earlier research, one should consider the following key benefits that might arise for a government agency and the efficient introduction of a comprehensive internal management program:

- “IC can improve efficiency and make value for your business, rather than just maintaining enforcement”- Edward Chow Chairman, IFAC PAIB Committee (2011)
- “IC allows organization to plan, enforce and establish policies, and then IA guarantees that administration abides by them,”-Cees Klumper, Vice-President, Internal Control, Ahold (Dutch stores group). (2009)
- Helps optimize resources and minimize losses.
- Internal control means that effective action is taken in the field of risk management with a view to meeting operational goals.
- A good management monitoring program provides the different parties with sound financial reporting standards and thus reliable records.
- Assets are safeguarded and operating efficiency is enhanced with the active internal control.

K. The Relation between Internal Control and Internal Auditing

The financial and banking industry is one of the leading players in the growth of the economy and innovation in a nation. Business and banking operations also enhanced the value of internal controls as all those complex processes and thousands of employees have become more difficult to control. This is why there has been a growing need for an effective system of internal control. Internal control is not legislation or laws that exist for a certain period, but a regular activity which is carried out by every unit and bank staff (David Hay W. Robert Knechel Helen Ling, 2008).

Two stages are included in the control activities; the first phase is the setting up of banking rules and procedures, the second stage is the oversight of whether banks are implementing rules and procedures. “internal control guarantees enforcement and

accuracy of financial reporting operations following the laws and regulation” (Hayali et al, 2013, page 1). All departments and units of a bank are interrelated with each other. If an individual is not accountable and does not behave ethically, the internal control structure of the company will be harmed. Therefore, the value of internal control is important for all employees of the banks to believe in and participate fully in the operation. External auditing and internal control are very so critical in banking functions to be used in tandem.

The internal audit assesses the efficiency of the system because all departments are entitled to be investigated by the auditor. Internal auditing helps the executive committee to see how the process of internal control operates. There is a positive correlation between internal audit and internal control because the board of directors receives important feedback from an effective internal audit. The board's directors thus see the vulnerabilities of the banks and can find a suitable way to fix the found problems.

L. The Internal Audit and the Internal Control Systems in Turkey

Turkey had serious economic difficulties by the end of 1990 and the start of 2000. Due to poor governance systems, several banks failed. The Banking Regulation and Supervisory Agency (BRSA) was established to recover losses in the banking sector. Since the establishment of BRSA, Turkey's banking sector has become more stable and has not been affected by the recent global financial crisis. Banks are under the BRSA's oversight. Under the BRSA law published on November 01, 2006, in the official Gazette No. 26333, all banks are responsible for setting up an internal audit unit for the framework. The basic aspects of this statute should be discussed in the following parts of the report. Başpınar (2005) notes that three forms of auditing relate to the banks in Turkey. There is internal auditing in Turkey by bank staff, external auditing by the credit rating agency and public audits by banking regulations and supervisory authority.

To monitor and manage the risks of banks and to monitor compliance with evolving sectoral circumstances in all branches and units of banks, the internal system unit should be adequate and efficient. The board of directors is responsible for creating effective, adequate ISUs that function on the internal system unit in compliance with the banking law. (Article 5, paragraph (1)). The senior management duty is to oversee

the execution, by the internal system officer, of the plans and policies approved by the bank board. The internal audit aims to ensure that bank activities are following the bank's plans, practices, values, and rules. It aims to ensure that internal control systems and risk management systems are adequate and effective (Article 21, paragraph (1)). All banks' operations without limitations should be reviewed based on risk and checked periodically in domestic and overseas branches and headquarters. Periodic auditing and risk management should include the followings: (Article 21, Paragraph (3));

- Assessment of internal controls and risk management processes' adequacy and efficacy.
- Analysis of the digital data and banking services process.
- Examine the accuracy and reliability of reports and transactions.
- Study of IT systems, including electronic banking and electronic information systems.
- The bank's plans, policies and procedures shall be reviewed in conformity with the acts and other applicable law.
- Reliability of the documents sent to the management board and senior management.

If the risk management system is used, the bank must follow the risk assessment models (Article 21, paragraph (4)).

- Models and approaches of risk assessment include routine risk management.
- The bank's pricing and valuation processes.
- Risks associated with the bank's risk management models.
- Accuracy and suitability of data and assumptions used in models of risk assessment.
- Precision of the retrospective measures used for method of risk assessment.

Internal audit role conducted by the internal audit department in banks, internal audit director must have a banking experience of at least seven years. Internal audit managers control, track and guide the activities of the internal audit. They evaluate the

qualifications required by inspectors and plan training programs to develop the skills and capabilities of inspectors (Article 22, paragraph (2)). Inspectors are very important for the internal audit of banks because they are primarily responsible for internal audit activities. Inspector's abilities and powers should be clearly specified. The inspector should have the following characteristics and powers in compliance with the banking law as per ISU (Article 23, paragraph (1-4)):

- • The investigators perform regular their duties and responsibilities separately and impartially.
- In the case that the credibility and impartiality of the investigator is revealed to the audit committee, the investigator shall be exempted from service.
- Inspectors will inspect the branches and departments of all banks in order to perform their roles and obligations efficiently.
- Information and expertise for the examination of information systems must be obtained from inspectors.

To order to have a stronger corporate audit system, ISU monetary legislation stipulates that banks will have a corporate audit program. The IA director and the senior management should be ready for the IA programmer; the approval of the internal system officer and the board of directors should be included. In the event of requirements, the IA agent may review the project in accordance with the policy. (Article 28, Paragraph (3)). The internal audit strategy should include auditing goals, department priorities, and significance, the review time and the resources needed to carry out audits. To develop the working system according to the audit strategy, the internal audit unit is required. To achieve this goal, the work program requires auditing targets and information. Under Article 29 paragraph (1), the work plan should include the control of the records to be audited, the risk assessment, the use of sampling methods and techniques. Sampling approaches and procedures can be used because of the vast number of activities to be audited. When choosing and applying sampling methods and techniques, researchers must consider the following.

The survey target, the size and features of the sampled community and the specification of the survey methodology should be determined. (Article 30, paragraph (3)). Audit reports shall indicate that an organization or operation meets the rules, policies and procedures concerned. A detailed audit outcome and recommendations

and their benefits should be listed in the internal audit report. (Article 31, paragraph (1)). An operation report must be sent to the internal system unit quarterly. (Article 31, paragraph (4)). Such documents contain training of inspectors provided over the reporting period, significant accounting problems and reluctant audit finding issues, a review of the data system audits conducted, risk assessment and overview, and vulnerabilities removal view. (Article 31, paragraph (4)). The IC process specifies the internal control operations and how they will be conducted by the design and scope of the activities. Professional expertise and internal control personnel should be adequate to complete the internal control tasks. The internal control system director must have at least seven years of banking experience (Article 19, paragraph (7)). Internal control employees carry out administrative operations in the departments, offices, and divisions they work out. In the bank's internal control process, the operational division of duties is very necessary. Conflict of interest, data theft and abuse of money, powers, and responsibilities of all personnel and committee should be clearly defined to prevent mistakes or fraud (Article 10, Paragraph (1)). The setting up of information systems is very useful for an effective system of internal control; according to the ISU Banking Act, the internal control process should be defined by the institution. All financial data in the online world should be safe and available at all times. The framework of the banks should have a sufficient up and down the flow of information that specifically notifies the lower and upper personnel grades of the bank's goals, plans, regulations, activities, and procedures (Article 12, Paragraph (1)). Problems facing the staff or any activity they find suspicious should be reported to the unit officer and passed on the internal control system. The banks are obliged to adopt the management and business continuity plan. To minimize the damage to the financial integrity of bank management, management, and business continuity plans should be developed for all operational interruptions. (Article 13, Paragraph (1)). The corporate continuity approach includes an assessment and a business impact analysis. Network contact technology and knowledge infrastructure should be applied. Through managing the information infrastructure and contact networks of the banks, the information received inside the bank will be reliable, precise, traceable, coherent and right to ensuring that the appropriate departments and employees are able to access information on time. (Article 16, Paragraph (2)). Control of the financial reporting system is another activity of the internal control system. Regulation of the financial reporting system is intended to ensure the quality and efficiency of the accounting and

reporting systems. Compliance testing is another essential operation of the internal control process. All activities carried out or planned to be carried out shall conform with the regulations and other relevant legislation and the internal policies and guidelines of the Bank.

M. Banking sector

1. Introduction

The institution must be proportionate to the scale and complexity of its operations and the potential risks associated with these activities. Due to market reform and the liberalization of capital flows, Commercial banks in recent years have increased dramatically.

Banking Regulation has an important political area at the start of the century, particularly in the United States. The great number of business failures, especially during most of the Great Depression was the main reason why regulation was imposed by economic principles in the banking system. The aim was to rebuild public trust in banking institutions, while not limited to the United States alone.

The debt issue subsided significantly after the year 1930; supervisory monitoring frequency declined in the United States and Continental Europe. International banking supervision is, therefore, one of the latest phenomena in economic history.

Although the regulations implemented by the Basel Committee do not have a formal legal status, the influence of the Basel Committee is of particular importance, and the supervisory authorities of many states have embraced a substantial part of the project of the Basel Committee.

2. Commercial banks

The main financial institutions are commercial banks, and they also govern the financial structure of each nation. Profitable banks play a significant role in the economy. They are the heart of the monetary systems as they are capable of affecting the public's purchasing power. Commercial banks provide such a broad range of banking, money orders, government bonds, and credit issuance services.

Business banks regulate investor balances and also provide loans to individuals

and companies. Several federal authorities like the Government Deposit Insurance Corporation (FIDC) and the federal reserve are controlling commercial banks. Commercial banks' key purpose is to create profit. The creation of the value of the bank can be achieved by increasing the share capital. More and more credit the bank gives to people or corporations, the advanced the interest rate, leading to an increase in the economic income of the bank. Also, commercial banks are borrowing and lending capital on their balance sheets.

3. History of banking sector in Afghanistan

The first bank of Afghanistan was established in April 1931, named Bank Millie Afghan which means Afghan National Bank (ANB) by Abdul Majid Khan Zabuli. Its Primary capital was 9,6 million Afghani which shared between the governmental and private sectors (28 percent owned by the government and 72 percent by the private sector). From the establishment of ANB to 1937 this bank was doing most of the central banks' duties. Banknotes were published in 1933 for the first time by the ANB. In the first decade, the bank operations successful assist and increased economic activities through banking services (BMA, 2015).

After a while in 1939 DAB (Da Afghanistan Bank) was formally established as a stated-owned central bank that owned 120 million Afghani. In Afghanistan the Bank currently has 47 branches all over the world and overseeing all banking and money management practices. The major task of DAB was (DAB, 2019):

- Publishing notes.
- Supervision of banks and lending institutions.
- Adjustment and implementation of currency regulations and supply of currency to the government.
- Regulation of entry and exit of currency.
- Maintain a cash value establishment.

Pashtany Bank is a state-owned bank founded in 1954 and registered under the commercial banking license to operate nationally with the Da Afghanistan Bank (Central Bank of Afghanistan). Since its founding, the Bank has served as one of the leading commercial banks and has dominated the commercial banking market. His

contributions to the advancement of financial inclusion and the availability of a range of banking products and services have been important. However, in addition to its strategic objectives, The Pashtany Bank played a major role in the real economy and the public sector (PB, n.d.).

In 2004 the first private bank of Afghanistan started to work, named Kabul Bank (New Kabul Bank , n.d.). After a while, Azizi Bank established in 2006 by the capital of 375 million Afghani. The first foreign bank was founded in 2004, named The First MicroFinance Bank (Azizi Bank, n.d.).

The transformation and restructuring of the Afghan banking system was an urgent necessity of the age and following international requirements. As the expansion of the economic boundaries of the countries of the world required a qualitative improvement in the level of economic opportunity and the globalization of financial relationships, the Afghan banking system would also coincide with the general process of developing international economic relations. Therefore, the post-war reconstruction of Afghanistan was one of the key steps taken by the international community to bring about monetary reform in Afghanistan, the transformation of the banking system, the enactment and enactment of the Afghan Banking Law and the Banking Law of Afghanistan in the following year.

4. Internal Control in the organizational structure of Banks

The ICS consists of a number of management procedures and controls to meet their corporate and strategic goals. Result 2438/08/06/98 of the Bank of Greece stipulates that << every institution must have adequate and effective internal control (ICS) system, which is responsible for the implementation by the Board of directors of the Bank of Greece of the registered objectives >>.

Based on the type and function of the bank, the internal auditing team plays a vital role in bank management. External supervision is often an autonomous consulting position for management or the audit committee, finding vulnerabilities and recommending steps to minimize these issues. In the hierarchy of the company, its role determines the strength of internal control. Under rule of law 3371/2005, the board appoints and is responsible for internal audits while reviewing the conclusions and documents produced in the internal audit Division by the three-member audit committee appointed by the board of managements. This, in turn, reports regularly and

extraordinarily to the board of managements of the bank (Institution of Internal Auditors (IIA), 2012).

N. Limitations of internal control

There may also be certain limitations on effective internal management that may affect the organizational efficiency of a company. The internal control mechanisms have a high propensity for weaknesses. The following may include:

- **Judgement errors:** Humans design and implement internal controls. Management uses decisions in the design and implementation of most of these controls and thus errors can occur either in the design phase or in the implementation phase. Incorrect decisions may lead to incorrect details during the design or implementation process.
- **Failures:** Deficiencies in defined controls can occur when mismanagement occurs; faults can also happen when the organization's workers lack adequate instructions. The complexity of the use of information technology can also cause regulator schemes failures.
- **Overriding supervision:** This happens while a senior management bypass protocol is operating; it is highly likely that senior administration will circumvent the policies or procedures developed for legitimate action.
- **Collusion:** This can be assumed that they collude whether two or more individuals work together to defraud the company. We can promote deception and hide the evidence when these workers bear a significant control feature.
- **Limitations of resources:** As resources are limited, organizations must give priority to tracking activities for resource utilization. In other terms, there are no resources available to execute all commands.

Conclusions

The internal control literature analyses and the examples have shown us that the subject of internal controls is viewed in several directions, including claims that the issue has different aspects. It implies that in different circumstances certain elements are subject to different definitions. The Management Council and a Business

devise and conduct internal measures to ensure specific oversight, company asset security and conformity with regulations and regulation. In brief, IC suggestion numerous rewards and strengths to those organizations that can place effective control measures in place. As a result of good management measures put in place, the optimal use of corporate capital can be accomplished. It also helps to reduce corruption and other financial reporting violations and workplace misappropriation of funds.



III. RESEARCH AND METHODOLOGY

A. Introduction

In developing the theoretical framework of this study, the literary reviews presented in Chapter two helped in the choice of its method. This chapter explains the structure and methodology of research orderly the data collection, analysis, summarization and conclusions drawn in the chapters that follow. The section outlines the methods and tools for this research, including research design, population study, sampling design, data collection and analysis techniques.

B. Research Design

A research study in the social and business sciences consists of three primary methods, including qualitative, quantitative, and mixed analysis methods. Qualitative research is a scientific approach that improves knowledge of humans and humanities to find out how people see the world. On the other hand, quantitative analysis is an analytical approach used with the use of statistical analysis and mathematical methods to generate numerical data and solid evidence (Gebre, 2018).

If a cross-sectional survey is used, data can only be obtained at a period other than overtime, such as longitudinal, therefore, the investigator used a cross-sectional survey type (Creswell, 2003). This research has used deductive as well as a quantitative data-gathering approach to find out the relationship between the variables through a self-administered questionnaire.

Finally, explanatory research is required to clarify the correlation between variables, therefore, the quantitative approach clearly explained statistical tests such as reliability, demographic, and Chi-Square Independence Test.

Types and Source of data

For this study, it was used both primary and secondary data. The primary and

main source of data collection method was the creation and distribution of questionnaires to the banks concerned. Analysis of related kinds of literature, in particular, IPPF standards, journals, research articles, and websites will have used as a secondary means for the study of data collection methods.

1. Collection of Secondary data

Secondary data is stored from national and international accounting journals as well as from business dailies, business magazines, cited and relevant textbooks in auditing as well as the quality of service and academic studies performed in related fields to form a clear theoretical context including the study literature review.

2. Collection of Primary data

In general, different methods of collecting primary data are available, particularly in research on descriptions and surveys. Such approaches include questioning methods, evaluating methods, planning methods, and other methods such as pantry audits, inventory audits, warranty cards, mechanical devices, product boards, etc. The best-suitable methodology for collecting primary data is the survey technique using questionnaire methods concerning the descriptive form of research. Statistics is obtained from a survey, comparing various magnitudes and values for the entire population.

The questionnaire method for collecting data is quite common, particularly concerning large cases of inquiry. Student, private individuals, public and private entities and even governments accept and introduce it. With regards to the current dissertation, the researcher has used the questionnaire method for the goal to collect primary data in the Afghan banking industry, Herat province to measure the effectiveness of internal audits and controls.

C. Population and Sample selection

1. Population

The population of this research is all employees of the banking sector in Herat-Afghanistan. There are 12 banks in Herat-Afghanistan which 3 of them is state banks (DAB, BMA, PB). As the private sector nowadays is important we have 7 banks which are private and one branch of foreign banks (FMFB_A).

The table below shows the banks in Herat-Afghanistan. Also, it shows the number of employees which is our population.

a. List of Banks in Herat-Afghanistan

Table 1: List of Banks

Banks in Herat	Year of Establishment	No. of Employee
Da Afghanistan Bank (Central Bank of Afghanistan)	1939	86
Bank Millie Afghan	1933	17
Pashtany Bank	1954	16
New Kabul Bank	2011	52
Azizi Bank	2006	58
Afghanistan International Bank	2004	28
Islamic Bank of Afghanistan	2009	22
Maiwand Bank	2008	29
Afghan United Bank	2007	17
The first Micro Finance Bank	2004	83
Ghazanfar Bank	2009	17
Bank Alfalah ltd	2005	12

2. Sample Size

Non-probability sampling was used to conduct this study to select the study respondents to form the bank's identified branches. Purpose sampling is important as officials or experts are supposed to have rich knowledge than other people who are working directly on the issues. The sample size refers to the number of respondents required to obtain reliable and accurate results for specific research. The more the sample becomes the more accurate the results seem to be. The population of employees in Herat-Afghanistan's bank are 437 which I have taken individually from each bank. The sample size for the population was decided 168 with 5% margin error and 95 % confidence level.

3. Questionnaire Design

As mentioned above, the questionnaire approach has been adopted to this study

for primary data collection. Furthermore, the researcher cannot easily model and create a questionnaire to implement successfully. The performing of a study for the research is one of the most challenging and interesting activities. The questionnaire is indeed an identity-administered evaluating tool even though It is structured by the researcher to gather data from the respondents to assess their behavior, and to respond to the research goals set out in the previous study. The questionnaire is used to capture the perceptions and views of respondents, as well as to classify, compare or show the beliefs, feelings, desires, wishes and actions of the person and community (Bryman and Bell, 2007).

The questionnaire was structured in two sections for quick comprehension and learning. The questionnaire’s first part took into consideration the respondent's demographic characteristics as well as some general questions about data. The second part of the questionnaire mandated the respondent for the effectiveness of internal audit and internal control in the banking sector of Afghanistan, selected or attached to a five-level scale that is strongly disagreeing, disagreeing, neutral, agreeing and strongly agreeing with. The aim was to collect the respondent’s impression in response to the bank's internal audit and internal control.

Table 2: Likert Scale

Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
5	4	3	2	1

D. Methods of Data Analysis

Data analysis aims to analyze, categorize, tabulate and recombine the data collected to address the initial objective of a report (Yin, 2003). In this research, SPSS 25.0 software was used to conduct statistical analysis on this paper after the questionnaire form was coded into the program. The descriptive statistical analysis method was performed by percentage and frequency to identify respondents with demographic related information such as (gender, age, level of education, status, and work experience).

The researcher used the ordinal (ranked) type of categorical data, according to the selected survey instrument, which is the Likert scale questionnaire model. The data collected to describe the effectiveness of internal audit and internal control. This is by taking mean values for each answer to the item construct. Mean value is selected become ordinal data are created by item responses ranging from “Strongly Agree” to “Strongly Disagree”.

Upon collecting editing, and continuing the quantitative data and entering into SPSS software, a reliability test and validity test was conducted. Instead, following a descriptive statistical, primarily frequency count, percentage, central tendency measurement (mean), dispersion measurement (standard deviations) were used to summarize and explain the observation results. Besides, chi-square was used to assess the effectiveness of internal control and internal audit in the banking sector.

E. Reliability

Reliability is a term used to determine study performance. Reliability is about a measure's consistency. Developed by Lee Cronbach in 1951, Cronbach's alpha tests accuracy or internal consistency. Accuracy is how well it should be assessed by a sample. Aloha checks by Cronbach to see if Likert scale multi-question surveys are accurate.

IV. RESEARCH FINDINGS: ANALYSIS AND DISCUSSION

A. Introduction

Chapter four describes the research findings analyzes and comments gathered from questionnaires. It consists of two-part which the first part is analyzing demographic and the second part is hypothesis testing.

B. Reliability

The reliability is within the acceptable range as set out in Table 4 below Cronbach's alpha is a simple measure used to assess internal consistency or reliability. The research instrument is accurate according to the general rule of thumb about Cronbach's alpha.

Table 3: Case Processing Summary

		N	%
Cases	Valid	151	91.5
	Excluded	14	8.5
	Total	165	100.0

Source: Case Processing Summary by SPSS.

Table 4: Reliability Statistics

Cronbach's Alpha	N of Items
.840	20

Source: Reliability analysis by SPSS.

C. Demographic Data Analysis

The following section presents the profile of the respondents in terms of employee's gender, age, status, education, and work experience.

1. Gender Profile

After analyzing the respondents' gender balance, it could be summed up that 121 respondents who are 80.1 percent were males and 19.9 percent of the group represented 30 females.

Table 5: Gender data analysis

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Female	30	18.2	19.9	19.9
	Male	121	73.3	80.1	100.0
	Total	151	91.5	100.0	
Missing	System	14	8.5		
Total		165	100.0		

Source: Questionnaire analysis by SPSS.

a. Age

The respondent's age profile was divided into five categories. According to the table 6, of the 165 respondents, most respondents were in the phase range of (25-35 years) of age by a total of (70) responses (46.4%), followed by (34) respondents which are (18-24 years) with (22.5%), 28 respondents were (36-45 years) with (18.5%), 12 respondents were (46-55 years) by (7.9%) and 7 respondents were (56 and older years) by (4.6%).

Table 6: Age data Analysis

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	18-24 Years	34	20.6	22.5	22.5
	25-35 Years	70	42.4	46.4	68.9
	36-45 Years	28	17.0	18.5	87.4
	46-55 Years	12	7.3	7.9	95.4
	56 and Older	7	4.2	4.6	100.0
	Total	151	91.5	100.0	
Missing	System	14	8.5		
Total		165	100.0		

Source: Questionnaire analysis by SPSS.

b. Status

According to the table 7 below the most of the respondent were married (109) by (72.2%), followed by 37 respondents which were single by (24.5%) and 5 respondents which were (Divorced / Separated) by (3.3%).

Table 7: Status data analysis

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Single	37	22.4	24.5	24.5
	Married	109	66.1	72.2	96.7
	Divorced/ Widowed/ Separated	5	3.0	3.3	100.0
	Total	151	91.5	100.0	
Missing	System	14	8.5		
Total		165	100.0		

Source: Questionnaire analysis by SPSS.

c. Education level

According to Table 8, the majority of respondents were Bachelor Degree with a total of 102 responses (67.5%), followed by Under Bachelor Degree and Master Degree with both totals of 19 responses (12.6%), 10 responses for others which is (6.6%) and 1 response was (Doctorate Degree) by (0.7%).

Table 8: Education Level data analysis

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Under Bachelor Degree	19	11.5	12.6	12.6
	Bachelor Degree	102	61.8	67.5	80.1
	Master Degree	19	11.5	12.6	92.7
	Doctorate Degree	1	.6	.7	93.4
	Others	10	6.1	6.6	100.0
	Total	151	91.5	100.0	
Missing	System	14	8.5		
Total		165	100.0		

Source: Questionnaire analysis by SPSS.

d. Experience

According to the Table 9 below the most respondents were Above ten years which was 40 respondents by (26.5%), followed by 39 responses for (Five to seven years) which were (25.8%), 28 respondents for (Two to four years) by (18.5%), 24 responses for (Eight to ten years) by (15.9%), finally, 20 respondents were for (less than two years) by (13.2%).

Table 9: Experience data analysis

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Less than two years	20	12.1	13.2	13.2
	Two to four years	28	17.0	18.5	31.8
	Five to seven years	39	23.6	25.8	57.6
	Eight to ten	24	14.5	15.9	73.5
	Above ten years	40	24.2	26.5	100.0
	Total	151	91.5	100.0	
Missing	System	14	8.5		
Total		165	100.0		

Source: Questionnaire analysis by SPSS.

D. Descriptive Statistics

In the first part of the questionnaire which is about internal control. It shows that security provided by the internal control has efficiency in the banking sector because all mean responses are more than 4.1. In the chart below, the standard deviation is less than 1.00 which means the perception of the respondent is close together (Kaufmann, 2014; Harnois, 2017).

Table 10 : Descriptive Statistics of security provided by Internal Control

	N	Min	Max	Mean	Std. Deviation
Q1: The internal control protects the resources and staff of the company.	151	2	5	4.32	.762
Q3: Internal control leads to recognizing and addressing any threat defined via the checking.	151	2	5	4.15	.852
Q7: Control system avoids and safeguards illegal actions.	151	2	5	4.34	.791
Q9: Internal control guarantees the computing system and the bank's data are fully protected.	151	2	5	4.25	.748
Valid N (listwise)	151				

Source: Questionnaire analysis by SPSS.

In the second part which is Policies, changes, and updates integrated into the internal control all mean are more than 3.99 which shows high acceptance of responses. Table11 also explains std. Deviation which is less than 1 it means the respondent is close together.

Table 11: Descriptive Statistics of Policies, changes, and updates integrated in to Internal control

	N	Min	Max	Mean	Std. Deviation
Q2: The internal control leads to maximizing the effectiveness of the company.	151	2	5	4.22	.747
Q4: An updated structured strategy is needed for each sector and department.	151	1	5	4.09	.901
Q5: A Code of Ethics must be defined by the employers or the laws of ethics.	151	2	5	4.08	.860
Q6: An internal control not only take place on a regular basis but also in unusual cases.	151	1	5	3.99	.902
Q8: Monitoring and performing should be set according to the policies and procedures.	151	1	5	4.06	.889
Valid N (listwise)	151				

Source: Questionnaire analysis by SPSS.

This part of the questionnaire is related to the internal audit and it is about Internal Audit independency. Table 12 shows Internal Audit independence has efficiency because all the mean is more than 3.87 and it means high acceptance.

Table 12: Descriptive Statistics of Internal Audit independency

	N	Min	Max	Mean	Std. Deviation
Q12: Internal auditor has access to all data, documents and information.	151	1	5	4.03	.909
Q13: Internal control functions independently and impartially.	151	1	5	4.10	.957
Q14: Audit department adjusts the time for the inspection.	151	1	5	3.87	.978
Valid N (listwise)	151				

Source: Questionnaire analysis by SPSS.

This part of the questionnaire is about organogram (responsibilities, policies) and all mean is more than 3.83 which explains the high acceptance of response.

Table 13: Descriptive Statistics organogram of Internal Audit

	N	Min	Max	Mean	Std. Deviation
Q11: It is possible to check a transaction if it was done by the right employee.	151	1	5	3.83	1.031
Q15: Duties and responsibilities of employees should be well-defined.	151	1	5	4.36	.837
Q16: There is a formal relationship between the auditor and the staff.	151	1	5	4.19	.914
Q19: Reports should be sent to the administrators of certain sectors.	151	1	5	3.85	1.003
Q20: Reports should be share to the certain staff.	151	2	5	4.03	.816

Valid (listwise)	N	151
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Source: Questionnaire analysis by SPSS.

The final part of the questionnaire is about the consistency of internal audit and all mean is higher than 4:00 which explains the high acceptance of responses.

Table 14: Descriptive Statistics of consistency

	N	Min	Max	Mean	Std. Deviation
Q17: Saving data and computation lead to tracking or even enhancing monitoring.	151	1	5	4.17	.920
Q18: Bank's equipment (ATM, Card printer and Cash collection machine) are evaluated for proper operation.	151	1	5	4.14	.931
Valid N (listwise)	151				

Source: Questionnaire analysis by SPSS.

E. Hypothesis Testing

Hypothesis testing is a statistical method that is used with experimental data to make statistical decisions. To analyze the efficacy of internal audit and internal control in the banking sector, the hypothesis testing process was carried out through chi-square independence test. In this research to examine our hypothesis, we used chi-square independence test which is usually used to the value we expected and the value which we observed.

H1 : The security provided by the internal control system is dependent to efficiency degree in the Banking sector.

This hypothesis consists of (Q1, Q3, Q7, and Q9) which show us the effectiveness of internal control. Table 15 which is the chi-square test tells us it is accepted or not. If $Asymp.sig < 0.05$, our hypothesis is accepted so my first hypothesis is accepted because of $Asymp.sig = 0.013$.

Table 15: Chi-square ;Independence Test

	H1
Chi-Square	25.394 ^a
Df	12
Asymp. Sig.	.013

a. 7 cells (53.8%) have expected frequencies less than 5. The minimum expected cell frequency is 1.2.

Source: Questionnaire analysis by SPSS.

H2 : Policies, changes, and updates integrated into the internal control system is dependent to efficiency degree in the Banking sector.

The second hypothesis is involved (Q2, Q4, Q5, Q6, and Q8) and tells us about the effectiveness of internal control. Table 16 is the chi-square test for the H2 or the second hypothesis which is accepted by Asymp. Sig = 0.004 if it was more than 0.05 we can say it is rejected.

Table 16: Chi-square Independence Test

Test Statistics	H2
Chi-Square	27.772 ^a
Df	11
Asymp. Sig.	.004

Source: Questionnaire analysis by SPSS.

H3 : Internal audit independence is independent to the in the Banking sector.

The third hypothesis is about the effectiveness of internal audit and it is inclusive (Q12, Q13, and Q14). Table 17 tells the hypothesis accepted or rejected and if the Asymp. Sig < 0.05 is accepted as in the table below the Asymp. Sig=0.00 it means our hypothesis is accepted.

Table 17: NPar Tests

Test Statistics	
	H3
Chi-Square	31.531 ^a
Df	8
Asymp. Sig.	.000

a. 2 cells (22.2%) have expected frequencies less than 5. The minimum expected cell frequency is 1.8.

Source: Questionnaire analysis by SPSS.

H4 : Clarity of responsibilities, policies, and organogram in the internal audit system have efficiency in the Banking sector.

Hypothesis four is also about the effectiveness of internal audit which consists of (Q11, Q15, Q16, Q19, and Q20). Table 18 show us whether our hypothesis is accepted or rejected if Asymp. Sig < 0.05 then our hypothesis is accepted. The Asymp. Sig =0.00 so it is accepted.

Table 18: NPar Tests

Test Statistics	
	H4
Chi-Square	1286.424 ^a
Df	12
Asymp. Sig.	.000

a. 12 cells (92.3%) have expected frequencies less than 5. The minimum expected cell frequency is .1.

Source: Questionnaire analysis by SPSS.

H5 : The consistency of certain operations within the internal audit system causes efficiency in the Banking sector.

Lastly, H5 consists of (Q17 and Q18) which is talking about the effectiveness of the internal audit. As in table 4.17, the last hypothesis is accepted due to Asymp. Sig =0.000. Also table 4.18 is about our expected value and observe the value.

Table 19: NPar Tests

Test Statistics	
	H5
Chi-Square	51.443 ^a
Df	6
Asymp. Sig.	.000

a. 1 cells (14.3%) have expected frequencies less than 5. The minimum expected cell frequency is 4.3.

Source: Questionnaire analysis by SPSS.



V. CONCLUSION AND RECOMMENDATION

A. Introduction

This chapter provides summaries of the observations, conclusions, and recommendations taken based on the results of the questionnaire and document review responses. The final chapter of the analysis end and the section below summarizes the report and highlights key findings.

B. Summary of Major Findings

In line with the intent of this research to assess the effectiveness of internal audit and internal control in the banking sector of Afghanistan, the questionnaire gathers first-hand information from respondents with a heterogeneous age, level education, experiences, and status. Then, the reliability test was performed to verify the incoherence of the data. Lastly, for hypothesis testing, SPSS used to test Chi-Square Independence test which is usually for the independent variables. The analysis found that the plurality of employee and staff are males (80.1%), the 25-35 years' age group constitutes the large part in Herat banks and most of them are Bachelor Degree.

C. Conclusions

First, we used the COSO committee's model (Framework), which represents one of the most effective tools to evaluate the efficacy of internal systems of control, to capture the effectiveness of internal controls. Depending on the COSO framework internal control consists of five elements that measure internal audit effectiveness. Since the internal audit is an autonomous or independent, objective monitoring and consultancy practice designed to add value and enhance the operations of an entity, concerns have arisen of greater importance than before as to how effectively it performs that function. The latest global economic crisis has led to doubting how effective internal audit is, both in its more traditional position of controlling internal control and financial probity enforcement and its more modern and self-proclaimed

function as an integral part of organizational risk management culture. It is evident that efficient internal audit enables organizations specifically banks achieve their goals by providing a systematic and disciplined approach to assessing and improving the performance of risk management, control and governance processes especially in Herat Banks.

The questionnaire has been sent it in Herat banks, it has two part which first part was Demographics (Age, Gender, Experience, Education and status) and the second part was Likert scale (Strongly Disagree, Disagree, Neutral, Agree and Strongly Disagree). The first and important test used was the Reliability test to show the incoherence of data. The Cronbach's alpha was 0.840 which means the data is strongly reliable. After that, the Demographic was done which shows the percentage and frequency by SPSS. Finally, we test hypotheses with Chi-square independence of fit which is usually used for the independent variables. To check whether the hypothesis was accepted or rejected we need to check the Asymp. Sig and if it is less than 0.05 it is accepted.

Besides, some of the researchers did the same study, Philip Ayagre did the effectiveness of internal control system of the bank (the case of Ghanaian bank) and he found a high relationship between control environment and monitoring activities her study looked only two-component of Internal control which had a high relationship, Mohammad Bayyoud, and Nermeen Ahmad Sayyad worked and researched and they found that Internal control and Risk Management consumes helpful effect on Banks revenue, Halil Akmese did, he found The most critical aspect in making the process productive and successful is to have a framework that fulfills the board of directors ' responsibilities, Nasibah Ahmad researched and the results are consistent with previous research that illustrate the value of internal audit efficiency to improve internal audit feature effectiveness. Ayşe Hayali researched and she finds out While the banks have the same general law and regulatory system, each bank has made some adjustments unique to its structure and The above-mentioned versatility and an effective and realistic framework are supported by the banks. Mr. Asiligwa, G. Rennox did discover that high relation among the internal control and fiscalact of commercial banks in Kenya.

D. Recommendation

Recent study has been accompanied in Herat, Afghanistan, a more comparative study can be carried out in other parts of Afghanistan or in Turkey to compare the results. It is assumed that these guidelines provide the bank with viable solutions.

- Internal audit's organizational independence shall be free from management interference in the inclusion and reporting of all the critical findings.
- The financial institution must employ, train and employee Competent, skilled and adequate Internal Audit team personnel.



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VII. APPENDIX





T.C.
İSTANBUL AYDIN ÜNİVERSİTESİ REKTÖRLÜĞÜ
Lisansüstü Eğitim Enstitüsü Müdürlüğü

Sayı : 88083623-020
Konu : Etik Onay hk.

Sayın SAYED BASIR AHMAD AYOUBI

Tez çalışmanızda kullanmak üzere yapmayı talep ettiğiniz anketiniz İstanbul Aydın Üniversitesi Etik Komisyonu'nun 28.01.2020 tarihli ve 2020/01 sayılı kararıyla uygun bulunmuştur.

Bilgilerinize rica ederim.

e-imzalıdır
Dr.Öğr.Üyesi Hüseyin KAZAN
Müdür Yardımcısı

17/02/2020 Enstitü Sekreteri

Tuğba SÜNNETCİ

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Appendix: Questionnaire

Questionnaire: The objective of the current survey is to collect and provide data to use in Master of Business Administration Research at the İstanbul Aydın Üniversitesi. The results and findings of this paper can be beneficial to both academic fields as well as the banking industry in Afghanistan. Concerning this, cooperation from the respondents is much needed and appreciated. I, Sayed Basir Ahmad Ayoubi, Master's Degree of Business Administration student from İstanbul Aydın Üniversitesi thank you for your cooperation.

Instruction: Please answer the following question and put in that matches you most.

1. Gender

1) Male

Age

1) 24 and under years old

3) 36–45years old

5) 56 and over years old

Status

1) Single

3) Divorced/ Widowed/ Separated

Level of education

1) Under Bachelor Degree

2) Female

2) 25–35years old

4) 46–55years old

2) Married

2) Bachelor Degree

3) Master Degree

4) Doctorate Degree

5) Others.....

Working experience

1) Less than two years

2) Two to four years

3) Five to seven years

4) Eight to ten

5) Above ten years



Please mark every question with only one in the box that most corresponds to your comments.

Statement		Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
		(5)	(4)	(3)	(2)	(1)
1	The internal control protects the resources and staff of the company.					
2	The internal control leads to maximizing the effectiveness of the company.					
3	Internal control leads to recognizing and addressing any threat defined via the checking.					
4	An updated structured strategy is needed for each sector and department.					
5	A Code of Ethics must be defined by the employers or the laws of ethics.					
6	An internal control not only take place on a regular basis but also in unusual cases.					
7	Control system avoids and safeguards illegal actions.					
8	Monitoring and performing should be set according to the policies and procedures.					
9	Internal control guarantees the computing system and the bank's data are fully protected.					
10	Internal control anticipates incorrect behavior and errors that could threaten not only the reputation and interests of the bank, but also the shareholders.					
11	It is possible to check a transaction if it was done by the right employee.					
12	Internal auditor has access to all data, documents and information.					
13	Internal control functions independently and impartially.					
14	Audit department adjusts the time for the inspection.					

Statement		Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
		(5)	(4)	(3)	(2)	(1)
15	Duties and responsibilities of employees should be well-defined.					
16	There is a formal relationship between the auditor and the staff.					
17	Saving data and computation lead to tracking or even enhancing monitoring.					
18	Bank's equipment (ATM, Card printer and Cash collection machine) are evaluated for proper operation.					
19	Reports should be sent to the administrators of certain sectors.					
20	Reports should be share to the certain staff.					
<p>Please recommend any other factor that you think might affect coffee consumption /behavior:</p>						

Reference: Theodoridou Paraskevi, student of International Hellenic University thesis title "The Effectiveness of Internal Audit and Internal Control Systems in Greek Banks"

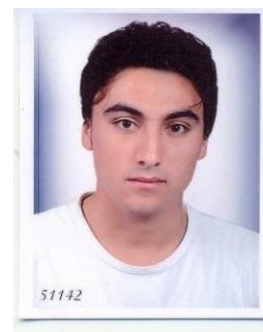
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