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AN ANALYSIS OF THE EFFECT OF INTERNAL AUDITING ON THE PERFORMANCE OF BANKING INSTITUTIONS IN ZIMBABWE

Dr Fainos Chinjova[1] ***Miss Vimbai Chigariro***[2]

Graduate School of Business; National University of Science and Technology; P O Box AC 939, Ascot, Bulawayo, Zimbabwe.

ABSTRACT

The purpose of the research study was to establish the effects of internal auditing on the performance of banking institutions in Zimbabwe. The motivation for the study was driven by the continuous modernisation and changes in the banking sector that have reportedly, impacted on the operations and processes of the Zimbabwe's financial sector. Risk in banking institutions have also increased due to the continuous changes in the financial operating environment and internal controls in place have since significantly changed so as to adapt to changes in the operating environment. More precisely, the security of depositors' funds remains questionable as cases of banking funds' theft continued to occur regardless of the existence of the internal audit function in banking institutions. The study used pragmatism as a research philosophy and stratified sampling technique was used to select a sample of 16 banks from a total population of 19, whose employees were used during the actual data gathering process. More importantly, the Pearson's correlation and multiple regression analysis performed showed that auditor independence, management support, internal controls and audit practices are critical and explicit factors that directly affect the performance of Zimbabwe's banking institutions. The study recommended that the Zimbabwe's banking sector, from time to time, should periodically review and assess the compatibility of internal controls to match new demands in the financial sector. In addition, management of the banking institutions operating in Zimbabwe should also *commit itself in adequately availing financial resources to ensure that the internal audit function performs its tasks without too many obstacles. Further, the study recommended that top management of the sector, especially the CEOs, should not interfere or victimise internal audit officers in the course of performing their mandatory tasks and audit charters should be regularly reviewed and updated so that recent changes in the financial sector are incorporated to improve performance.*

KEY TERMS: Internal Auditing; Banking Sector

1. INTRODUCTION

Internal audit is described as an independent function within the organisation with the responsibility for the examination and evaluation of activities in order to give an independent judgment (Awdat, 2015). The internal audit function serves as the first line of defence against disclosure errors, unintentional errors caused by weaknesses in an organisation's internal control and intentional errors due to fraud (Mercer, 2004). Lenz, Sarens and Hoos. (2017) and Barisic and Tusek (2016) agree that organisations benefit from effective internal audit as the role involves organisations' strategic goals. According to Grambling (2004), internal audit is an independent, objective assurance and consulting function designed to add value and improve the organisation's processes. Following corporate scandals which have cost organisations billions of dollars due to internal audit ineffectiveness, the role of internal audit in corporate governance has received increasing attention over the years. In Zimbabwe the Reserve bank of Zimbabwe raised the requirement for banks to have an internal audit department in place and the same issued a guideline on the minimum internal audit standards in banking institutions following the banking crisis of 2004. Given the modern environment in which banks are operating in, banks have had to adapt themselves to modern trends of doing business electronically but at the same time protect themselves from cybercrimes. All banks in Zimbabwe have implemented electronic or cyber banking in one way or the other which include mobile banking, internet banking, automated teller machines and point of sale machines. Electronic banking fraud is being experienced globally and is continuing to prove costly to banks and their customers (Usman and Shah, 2013).

2. BACKGROUND TO THE STUDY

In the past few years the banking sector in Zimbabwe has been characterised by high banking charges due to the hyperinflationary environment; alleged cash leakages into the parallel market, changes in regulation and policies which affect exchange control, withdrawal limits, interest rates and functional currency; and fraud. Card cloning cases have been on the rise in Zimbabwe with over 150 cases being reported in 2018 and subsequently the central bank requesting banks to submit cyber security policies by the 31st of March 2019.

Modernisation of banking processes has provided convenience to clients but at the same time has created challenges as there has been occurrence of theft of depositors' funds regardless of existence of the internal audit function in banks. Confidence in the banking sector is important for survival and success of banking institutions. Time and savings deposits composed of less than 9% of total deposits as at 31 December 2019 according to the Monetary Policy Statement of February 2020. The low savings may be attributed to the devaluation of the local currency or low confidence in the banking industry or other factors.

According to Badara (2013), internal auditing is based on the examination of the system and procedure in place to ensure conformity with regulations. There is therefore a need to further explore contribution of the internal audit function given changes in the operating environment of banks and complexities in business processes. Badara (2012), Unegbu and Kida (2011) characterise internal audit units as weak, under resourced, dependent and understaffed. The study therefore seeks to articulate issues that undermine the effectiveness of the internal audit functions in banking institutions and how it impacts on organisational performance.

Banking Institutions in Zimbabwe

Banking institutions in Zimbabwe are divided into 3 clusters according to the Reserve Bank of Zimbabwe (RBZ). These clusters are as follows commercial banks, building societies and savings bank. Architecture of banking institutions is shown in Table 2.1 below:

Table 2.1: Architecture of Banking Institutions in Zimbabwe

Type of Institution	Number
Commercial Banks	13
Building Societies	5
Savings Bank	1
Total Banking Institutions	**19**

Source: RBZ Monetary Policy Statement February 2020

There are thirteen (13) commercial banks; five (5) building societies and one (1) savings bank from the figure above.

3. STATEMENT OF THE PROBLEM

The continuous modernisation and changes in the banking sector have had an effect on the operations or processes of financial institutions. Risks banking institutions are exposed to have also increased due to the continuous changes in the operating environment. The controls in place have had to change so as to adapt to changes in the operating environment. However, security of depositors' funds remains questionable as cases of funds theft continue to occur regardless of existence of the internal audit function in banking institutions.

4. OBJECTIVES OF THE STUDY

The study was guided by the following research objectives:

(i) To determine how the degree of independence granted to internal auditors in banking institutions affected their effectiveness.

(ii) To examine the contribution of management support for internal audit effectiveness in banking institutions.

(iii) To establish the effect of internal environment audit practises on performance of banking institutions.

(iv) To recommend ways in which effectiveness of internal auditing can be enhanced to improve the performance of banking institutions in Zimbabwe.

5. RESEARCH QUESTIONS

The study was guided by the following research questions:

(i) To what extent does organisational independence of internal auditors affect their effectiveness?

(ii) To what extend would the support by management to the internal audit function enhance internal audit effectiveness in banking institutions?

(iii) To what extent does internal environment audit practises affect performance of banking institutions?

(iv) How would effectiveness of internal auditing improve the performance of banking institutions in Zimbabwe?

6. REVIEW OF RELATED LITERATURE

6.1 Overview of Internal Auditing

Internal Audit (IA) is an integral part of management within any organisation as they are the ears and eyes of management. Internal auditing has been defined by different researchers and the definitions articulated the perceived role of IA function. Arens, Elder, and Beasley (2012) states that "auditing is the accumulation and evaluation of evidence about information to determine and report on the degree of correspondence between the information and established criteria." Hence, auditing can be classified into two categories, that is, external and internal auditing. External auditors are those who are not employed by the company and they provide a report on the financial statements prepared by verifying whether the statements reflect a true and fair view of the financial performance of the company. However, internal auditing is an independent and objective evaluation of the organisation's operations usually by the company's own employees for the purpose of risk management, control and governance.

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

In the same breath, Butcher, Harrison and Ross, (2013) defines internal auditing as a systematic and independent examination of financial information, account records, operations and performance (financial and non-financial) of an entity for the main purpose of verifying fairness and authenticity of the information and business operations. In addition, Shahnawaz (2016) states that internal auditing refers to a system of setting up checks on the daily transactions which operate continuously as part of the routine system with the main objective of early detection and prevention of fraud and \or errors. Internal control systems extend beyond matters directly relating to functions of the accounting system. Internal auditing has become a crucial management tool for achieving effective control by detecting weaknesses embedded in management operations in industry, specifically the banking industry (Nyakundi, Nyamita, and Tinega, 2014).

Internal auditing needs to operate independently and objectively so as to provide sufficient feedback to management free from bias. Internal audit role of effectiveness therefore depends on the degree of independence of the function in the discharge of their duties so as to assist management in achieving their objectives and improving internal controls in place. For internal audit to be effective they need management support as they cannot act in their own capacity. Sound internal controls need to be in place to enable an organisation to manage risks and achieve its overall objectives.

6.2 Theoretical framework

The study was guided by the policeman theory. The theory states that the job of the internal auditor is to focus on the arithmetic accuracy, prevention and detection of fraud. The theory claims that the auditor is responsible for searching, determining and preventing fraud (Ittonen, 2010). The theory provides a traditional view for the role of internal auditing but it is still relevant and important in today's environment. The role of internal auditing has progressed to a rather value adding and strategic role. Internal auditors provide reasonable assurance and verify the truthfulness and fairness of financial information provided by management. Detection of fraud is still an important responsibility of internal auditing given financial frauds which continue to occur in banking institutions. Fraud detection and prevention helps in safeguarding organisations from potential losses which has a desirable impact on overall profits of banking institutions.

6.3 Internal Auditing in the Banking Sector

According to Moeller, (2004); Swinkels, (2012); Gamage, Lock and Fernando (2014), significance of internal auditing has increased due to corporate failures which emerged around the end of the twentieth century, and included financial institutions. The main reason for a number of corporate failures was a lack of an effective IA function. These corporate failures have called for transformation and strengthening of the IA function (Okafor and IBadin, 2009; Changwony and Rotich, 2015). An effective IA department becomes relevant as it is critical for the survival of banking institutions.

The banking industry provides a variety of services to customers acquiring large amounts of funds (Tandon, Sudharsanam and Sundharabahu,2010). Therefore, effectiveness of the internal audit function cannot be undermined especially in the banking sector. According to Gamage, et al., 2014, IA effectiveness has a positive consequence on sound banking systems. This will aid in protecting the resources of banking institutions to produce reliable reports and comply with laws and regulations.

The banking crisis of 2003/4 in Zimbabwe led the Reserve bank of Zimbabwe to provide a guideline for minimum internal audit standards in banking institutions (Guideline No. 02-2004/BSD). Duties and responsibilities outlined in the guideline include but not limited to:

- Performing independent appraisals as a service to management of the banking institution;
- Ensuring sufficiency and effectiveness of internal control systems;
- Performing information systems and management audit assignments;
- Playing a participative and consultative role in development of new products;
- Checking for compliance with policies, procedures, rules and regulations;

Detection of fraud, errors, omissions and any other abnormalities.

6.3 Gap analysis

From the review of literature, authors have different views on the factors which affect effectiveness and the impact of internal auditing on performance of the organisation. The differences in views presented a gap for the researcher further explore the subject.

Younas and Kassim (2019), recommended on the expansion of scope on the importance of internal controls. In the banking industry fraud continues to occur regardless of existence of internal controls and the internal audit function. The researcher would want to determine causes of weaknesses in the internal control systems and factors which undermine effectiveness of internal auditing in a banking institution.

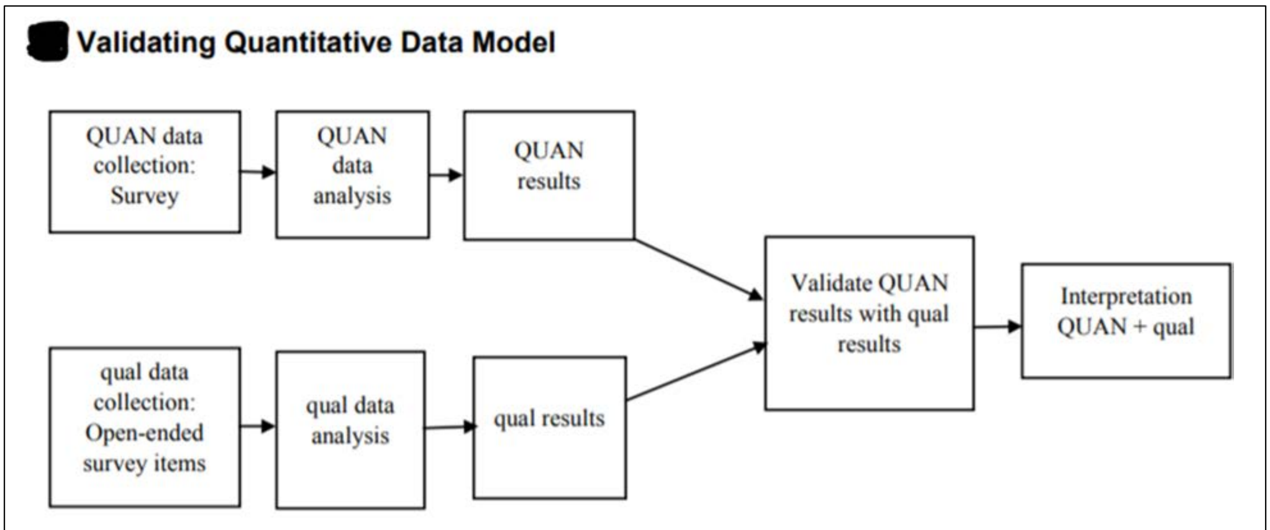
According to Al-Matari, et al. (2014), there is lack of research in developed and developing nations regarding the direct association of firm performance and internal auditing. They recommended the study in especially in developing countries. There has not been much research done in environments similar to Zimbabwe, particularly the banking industry. Cohen and Sayag (2010) suggest that internal auditing effectiveness is a vital concept rarely examined in the academic literature. This has motivated the researcher to further explore the subject.

7 RESEARCH METHODOLOGY

7.1 Research Design

The study used a mixed approach which incorporates the data validating quantitative model triangulation design shown in the figure below. In this study the researcher validated quantitative data gathered with the qualitative data obtained as shown in Figure 7.1 below.

Figure 7.1: Validating Quantitative Data Model



quantitative

7.2 Data Collection

This study collected data mainly from primary sources using questionnaires and interview guides even though secondary data from previous studies was used as well.

7.3 Sampling and sample size

In determining the sample size for the study, the researcher used Yamane's formula. The formula assumes a 5% margin of error and 95% level of confidence. As the banking population is homogenous and there are time and resource constraints the researcher chose a 10% margin of error and 90% level of confidence resulting in a sample size of 16 banking institutions from which 48 respondents were drawn for the purposes of this study. In order to breakdown the sample size into each stratum, the researcher used weighted averages. The researcher assigned weights to each type of institution, the relative weight was then multiplied by the overall sample size of 16 to produce a weighted average. The weighted average took into account relative importance of units in a data set. The formula is as follows:

$$\text{Weighted Average}_{x} = \mathbf{X_1\ W_1 + X_2\ W_2 + \ldots + X_n\ W_n}$$

Where, X = value (number of banks)
W= relative weight

There is only one savings bank in Zimbabwe (POSB) therefore this was automatically included in the sample to make sure that the sample was representative of the three sub- groups. Table 7.3 summarizes the determination of the sample for the study.

Table 7.3: Determination of sample size

Type of Institution	Number of banks	Relative Weight	Sample (Weighted average)
Commercial Banks	13	0.68	11
Building Societies	5	0.26	4
Savings Bank	1	0.06	1
Total	**19**	**1.0**	**16**

Source: Primary data

8. DATA ANALYSIS

8.1 Questionnaire Response Rate

The response rate on 48 questionnaires distributed to employees from 16 banking institutions in Zimbabwe as per the study's chosen sample structure is outlined in Table 8.1. The majority of the questionnaires were electronically distributed to respondents via email.

Table 8.1: Response Rate on Questionnaires

Category of Respondents	Target	Returned	Respondent Rate (%)
Commercial Banks	33	29	87.9
Building Societies	12	10	83.3
Savings Bank	3	3	100.0
Total	**48**	**42**	**87.5**

Source: Primary data

Table 8.1 highlights that a total of 48 research questionnaires were distributed and 42 were successfully completed for the purposes of undertaking the research study. All the questionnaires returned were properly completed and hence were usable for the purposes of this study. A detailed breakdown shows that a total of 33 research questionnaires were distributed to commercial banks and 29 were returned, yielding a response rate of 87,9%. It is also highlights that 12 questionnaires were distributed to building societies and 10 questionnaires were returned, giving a response rate of 83.3% whilst 100% response rate was attained on 3 questionnaires administered to the only savings bank. On average, it is shown that a total response rate of 87.5 % was attained which is supported by Hugue et al (2013) who stated that a response rate of 60% and more is a reliable and fair representation of the research population. The high response rate is attributed to the questionnaire design which was straightforward and easy to complete, and the researcher made follow ups with respondents.

8.2 Reliability Test of the Questionnaires

In order to test the reliability of the study's questionnaire, the researcher drew down the Cronbach's alpha value for each section of the dependent and independent variables to ascertain the internal consistence of the statements describing proxies for internal auditing and financial performance. Table 8.2 presented below highlights the reliability test results extracted from SPSS.

Table 8.2: Reliability Test Results

	Variables	**Number of Items**	**Cronbach's Alpha Value**
IV1	Auditor Independence	4	0.712
IV2	Management Support	5	0.785
IV3	Internal Controls	3	0.881
IV4	Audit Practices	5	0.716
DV1	Financial Performance	4	0.913

Source: Primary data

As highlighted in the table above, the Cronbach's alpha values for statements describing auditor independence, management support, effectiveness of internal controls and audit practices were 0.712, 0.785, 0.881 and 0.716 respectively. Table 4.1 also shows that the Cronbach's alpha value for statements describing financial performance is 0.913. As the reliability test results on every research variable are higher than 0.7, the research instrument is deemed to have good reliability in line with Smith et al (2016) who asserts that a Cronbach's alpha value of at least 0.7 assures good reliability of the research instrument.

8.3 Descriptive Analysis

Descriptive statistics were computed to determine a preview and generalisation of the research results and to ascertain variations between the respondents' views on each descriptive statement. Table 8.4 gives a summary of the mean and standard deviation of the data.

Table 8.4: Mean and Standard Deviation

Auditor Independence		**Importance**	
		Mean	***S.D***
AI1	*Independence is critical for internal audit to have an impact on financial performance of the bank.*	*3.90*	*.23658*
AI2	*Internal audit independence is important for effectiveness of the function.*	*4.90*	*.50012*

AI3	*Internal audit have unrestricted access to departments, employees and records in the bank.*	*3.20*	*.01254*
AI4	*Internal audit must be independent of operational activities and personnel of the bank.*	*4.20*	*.31225*
Management Support			
MS5	*Management support enhances internal audit effectiveness.*	*4.20*	*.00251*
MS6	*Internal audit department is large enough to carry out its mandate.*	*3.70*	*.01467*
MS7	*Management is aware of the needs of internal audit.*	*3.80*	*.26102*
MS8	*Management has high regard of the role of internal audit and supports the function.*	*3.92*	*.63102*
MS9	*Role of internal audit in risk management promotes effectiveness of the function.*	*3.81*	*.30126*
MS10	*Role of internal audit in governance promotes internal audit effectiveness.*	*4.02*	*.44512*
Effectiveness of Internal Controls			
IC11	*Effective internal controls contribute to financial performance of an organization.*	4.26	.30125
IC12	*Internal audit's reviews of individual systems and processes improve financial performance of a bank.*	3.68	.00254
IC13	*Audit of internal controls help in detection and prevention of fraud.*	4.60	.21205
Audit Practices			

AP14	*Professional competence of internal audit has an impact on their effectiveness and financial performance of a bank.*	4.68	.20154
AP15	*Established audit plan helps to safeguard the organization from financial loss.*	4.81	.02564
AP16	*Internal audit is proactive rather than reactive.*	4.92	.00145
AP17	*Internal audit report is accurate, findings are correctly argued and justified.*	4.80	.32558
AP18	*Internal audit recommendations can easily be implemented.*	4.96	.36254
Financial Performance			
FP19	*Internal audit adds value and improves financial performance of an organization.*	3.68	.02325
FP20	*Internal audit contributes to revenue growth and prevention of leakages.*	3.66	.00214
FP21	*Cost control is achieved without compromising quality of service through internal audit activities.*	4.02	.12653
FP22	*Internal audit ensures compliance within the organization.*	4.24	.21450

Source: Primary data

On average, the total mean ratings against each descriptive statement is over 3. This entails that the majority of the respondents agree or strongly agree with each statement explaining the subject under probe. In addition, the variations of the responses given from the mean (standard deviation) are low, meaning that the respondents shared relatively similar views on the subject under scrutiny.

8.4 Correlation Analysis

The researcher performed the correlation analysis as part of data analysis to reach at the research results. Table 8.6 shows results of the Pearson correlation analysis performed from the SPSS.

According to Smith et al (2016), a Pearson's correlation coefficient between 0 to 0.3 shows a weak relationship between the variables under study whilst a coefficient between 0.3 to 0.6 shows a moderate relationship. In addition, they stated that a strong relationship between variables under investigation should score a coefficient of 0.7 and above.

Table 8.6: Pearson Correlation Results

Correlations						
		Auditor Independence	Management Support	Internal Controls	Audit Practices	Financial Performance
Auditor Independence	Pearson Correlation	1	-.105	.024	.064	.882**
	Sig. (2-tailed)		.510	.879	.689	.000
	N	42	42	42	42	42
Management Support	Pearson Correlation	-.105	1	-.212	.031	.651
	Sig. (2-tailed)	.510		.177	.844	.000
	N	42	42	42	42	42
Internal Controls	Pearson Correlation	.024	-.212	1	.060	.991**
	Sig. (2-tailed)	.879	.177		.705	.000
	N	42	42	42	42	42
Audit Practices	Pearson Correlation	.064	.031	.060	1	.586
	Sig. (2-tailed)	.689	.844**	.705		.006
	N	42	42	42	42	42
Financial Performance	Pearson Correlation	.882**	.651	.991	.586	1
	Sig. (2-tailed)	.000	.000	.000	.006	
	N	42	42	42	42	42

**. Correlation is significant at the 0.05 level (2-tailed).

Source: Primary data

8.4 Effects of Auditor Independence on the Financial Performance of the Zimbabwe's Banking Sector

After entering the collected research data into SPSS, the research results shown in Table 8.6 highlights that auditor independence is strongly, positively and significantly correlated with financial performance after being tested at 95% confidence level. This is justified by a Pearson's correlation (r) of 0.882 and the probability of the set condition not occurring far less than 5% (p= 0.000). These results are in congruency with the research findings of Usman (2016) who found that independence of both internal and external auditors directly impacts on corporate financial performance. However, these research results contradict the findings of Hoos (2015) and Dawudo (2015) who professed that financial performance of organisations is not affected, anyhow, by the extent of auditors' independence.

8.6 Effects of Management Support on the Financial Performance of the Zimbabwe's Banking Sector

A moderate, significant and positive relationship between management support and financial performance of the Zimbabwe's banking sector was confirmed by the correlation test performed (r= 0.651; p= 0.000). These research findings are in harmony with the historic research findings of Sally-Anne Pitt (2014) who posits that positive and favourable all- sorts of management support directly influences financial performance.

8.7 Effects of Internal Controls on the Financial Performance of the Zimbabwe's Banking Sector

More importantly, the research results presented in Table 8.6 above shows that the presence of effectively working internal controls are significantly, positively and strongly related to financial performance of an organisation (r= 0.991; p= 0.000). These research results are supported by Omri and Dellai (2016) who states that the regular evaluation and improvement of internal control systems developed by management creates value to the organisation. In addition, D'Onza et al (2015) also confirms that the organisation's internal control system is significantly and positively associated with financial performance.

8.8 Effects of the Internal Environment Audit Practices on the Financial Performance of the Zimbabwe's Banking Sector

The results from the Pearson's correlation analysis performed shows that the internal environment audit practices moderately and positively affect financial performance as supported by an r value of 0.586 and p of 0.006, less than 5%. These results are in congruency with Alzeban and Gwilliam (2012) who asserts that a number of factors embodied in the actual practice of internal auditing and the internal environment of the organisation directly and significantly affect financial performance.

8.9 Multiple Regression Analysis

In the current study, multicollinearity was tested. Table 8.11 below shows that there are multiple correlations (R = 0.611) of 4 independent variables of internal auditing (auditor independence, management support, internal controls and audit practices) with the criterion (financial performance). It is important to register that auditor independence, management support, internal controls and audit practices collectively influence financial performance. All the 4 independent variables of internal auditing have a significant impact which explains an approximate of 57.3 % (R square = .573) of the variability on financial performance of the Zimbabwe's banking sector. The results also show that there is no multicollinearity between the residuals as Durbin Watson is 1.862 < 2.

Table 8.11: Multiple Correlation of Proxies for Internal Auditing on Financial Performance

Model Summary[b]										
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics					Durbin-Watson
					R Square Change	F Change	df1	df2	Sig. F Change	
1	.611[a]	.573	.505	.97074	.505	5.506	4	37	.001	1.862
a. Predictors: (Constant), Audit Practices, Management Support, Auditor Independence, Internal Controls										
b. Dependent Variable: Financial Performance										

Source: Primary data

8.10 Analysis of Variance (ANOVA)

The primary purpose of performing the analysis of variance (ANOVA) is to determine the degree to which total variance is affected by the regression equation. Summarized below, are the analysis of variance results. Table 8.12 reveals that 62.7% of the variance of the criterion is unaccounted for due to the presence of other factors that affect financial performance. However, the regression is significant ($F_{4,37}$= 5.506, P=0.01) after performing the regression at 95% confidence interval level.

Table 8.12: Analysis of Variance (ANOVA)

ANOVA[a]						
Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	20.753	4	5.188	5.506	.001[b]
	Residual	34.866	37	.942		
	Total	55.619	41			
a. Dependent Variable: Financial Performance						
b. Predictors: (Constant), Audit Practices, Management Support, Auditor Independence, Internal Controls						

Source: Primary data

8.11 Regression Coefficients and Significance of Proxies for Internal Auditing

Determining the extend at which each variable affect financial performance of the Zimbabwe's banking sector remains important despite the fact that it was previously established that all the elements of internal auditing affect financial performance in Table 8.12 above. This information is presented in Table 8.13.

Table 8.13 shows that all the 4 significant predictors are positively related to financial performance. However, the regression highlights that internal controls have the highest regression coefficient (0.971), followed by auditor independence (0.874), management support (0.627) and audit practices (0.330). In overall, the regression is significant after being tested at

95% confidence level. The multiple regression analysis presented tells us that every additional increase on each factor of internal auditing directly translates to a proportionate increase (to the magnitude of the regression coefficient) on the financial performance of the Zimbabwe's banking sector.

Table 8.13: Regression Coefficients and Significance of Proxies for Internal Auditing

Coefficients[a]						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	2.419	1.147		2.110	.042
	Auditor Independence	.874	.131	.870	7.379	.000
	Management Support	.627	.145	.625	.784	.005
	Internal Controls	.971	.164	.940	1.045	.003
	Audit Practices	.330	.126	.334	.428	.000

a. Dependent Variable: Financial Performance

Source: Primary data

8.12 Interview Responses

A total of 18 interviews were successfully conducted mostly telephonically. Interviews helped the researcher to validate the research results obtained through quantitative means.

8.13.1 Effect of Auditor Independence on Financial Performance

The respondents confirmed that there is professional interaction between the internal audit functions of Zimbabwe banks and their respective audit committees. In addition, although the respondents stated that the audit team is free to report their findings to management and other top executives, reservations on reporting issues pertaining to the conduct of top management is largely compromised. Citing fear of victimization at the workplace, the bad conduct and or, incompetence of top management remains difficult to cover in the Zimbabwe's banking sector. Although the respondents stated that the internal audit team enjoys free and open access to all information relating to the banks' operations, including the operations of the top management, reporting the real issues is largely in the dock.

8.12.2 Effect of Management Support on Financial Performance

The majority of the respondents stated that their audit functions are not adequately resourced. This shows that the effectiveness of the internal audit teams in the Zimbabwe's banking sector remains compromised.

8.12.3 Effect of Internal Controls on Financial Performance

The need to periodically review the internal controls in line with the laws and requirements of the organisation's internal processes and procedures manuals is very important for improvement of financial performance. The respondents highlighted that the presence of an effective system of internal controls guarantees improvement in financial performance. The respondents also cited that the internal controls are however, adjusted to incorporate the Zimbabwe's ever- changing macro-economic policies from time to time issued by the Reserve Bank of Zimbabwe (RBZ) and the inevitable pressure to migrate the banking services from manual operations to online banking platforms.

8.12.4 Effect of Internal Environment Audit Practices on Financial Performance

The respondents indicated that there is a valid internal audit charter in place in their banking institutions which governs the operations of the internal audit function though there were reservations on some of the elements in the charter. It was also stated that the internal audit function prepares audit reports and copies are delivered to both the CEO of the bank and the audit committee. The respondents also highlighted that the internal audit team cooperates with the external auditors in clarifying other sensitive information raised in internal audit reports. There is intensive use of computer aided auditing software by the internal auditing teams in the Zimbabwe's banking sector as a way of improving the effectiveness of the function.

9. FINDINGS AND DISCUSSION

9.1 Effect of Auditor Independence on Financial Performance of Banking Institutions on Zimbabwe

The study concludes that; auditor independence is a critical factor of internal auditing that directly affects the financial performance of banking institutions in Zimbabwe. This entails that, any improvement by the Zimbabwe's banking sector to ensure independence in the operations of the internal audit officers will correspondingly result in proportionate improvement in financial performance. In addition, from the major research findings, decrease in financial performance through theft of depositors' funds in the Zimbabwe's banking sector is as a result of compromised independence of the internal audit officers which render them to operate ineffectively. Also, fear of victimisation by the senior management or CEOs, have largely compromised auditor independence in the Zimbabwe's financial sector which in turn, has resulted in diminished financial returns.

These findings are in line with Usman (2016) who professed that auditor independence is an explicit factor that directly influence the financial performance of many business organisations. He added that, if auditor independence is affected to a greater extent, the whole concept of having the internal audit function becomes futile. This is supported by Cohen and Sayag (2010) who added that the effectiveness of internal auditing cannot be realised without auditor independence. This means the auditor is expected to be neutral across the entity and be objective so that the work of the audit function can be trusted by third parties.

9.2 **Effect of Management Support on the Financial Performance of Banking Institutions in Zimbabwe**

From the presented research findings, it is worth concluding that management support is an important pillar of internal auditing that affect financial performance. Although the Pearson correlation coefficient showed that it is an insignificant though positively and moderately related to financial performance, management support was proved to be a significant factor, in combination with other independent variables, in a multiple regression analysis performed that positively influence financial performance. As a result, management support can change financial performance by 0.627, considering the results of a multiple regression model with a constant of 2.419. As the internal audit function is often engaged in multiple assignments, investigations and missions, it can only effectively perform these tasks when it is adequately financially supported by management. In this regard, the key research findings showed that the effectiveness of the Zimbabwe's banking sector internal auditing is in great jeopardy due to lack of sufficient financial support from the management.

9.3 Effect of Internal Controls on the Financial Performance of Banking Institutions in Zimbabwe

It is undisputable from the research findings that the research results confirmed that the effectiveness of internal controls is the strongest factor that directly affect financial performance. Hence, it is concluded that the soundness of the organisation's internal control environment determines the extent at which financial performance can be attained. A sound internal control environment mitigates pilferage and avoidable financial leakages, hence directly impacting on financial performance. The need to periodically review the internal controls in line with the laws and requirements of the organisation's internal processes and procedures manuals is very important for improvement of financial performance.

The research conclusions are in harmony with Younas and Kassim (2019) who stated that regular evaluation of the internal control systems of an organisation as it helps the internal auditors to depend on them in giving their opinions. In contrast, Michael (2016) stated that internal controls are subject to inherent limitations which negatively affect the effectiveness of internal auditing.

9.4 Effect of the Internal Environment Audit Practices on the Financial Performance of Banking Institutions in Zimbabwe

The study concludes that; internal environment audit practices are an important factor that affect financial performance on a larger scale. It is also registered that the internal audit teams of the Zimbabwe's banking sector execute their functions in line with the dictates spelled out in the specific organisations' internal audit charters. The research findings also highlighted that there is intensive use of computer aided auditing software by the internal auditing teams in the Zimbabwe's banking institutions as a way of improving the effectiveness of the functions. This conclusion agrees with Alzeban and Gwilliam (2012) who asserts that a number of factors embodied in the actual practice of internal auditing and the internal environment of the organisation directly and significantly affect financial performance.

10 RECOMMENDATIONS

- The contribution of the internal audit function in ensuring that internal control systems are working as intended by management should never be ignored. Unlike other business environments, internal controls intended to reduce fraud, ensure operating efficiency and facilitating smooth flow of business processes are ever- changing. The research study showed that, this is due to dynamism in the technological world. It is therefore vital in banking institutions in Zimbabwe, from time to time, periodically review and assess the compatibility of these internal controls to the new demands in the financial sector as the study pointed out that the effectiveness of internal controls strongly, positively and significantly affects financial performance.

- The management of the banking institutions operating in Zimbabwe should also commit itself in adequately availing financial resources to ensure that the internal audit function performs its tasks without too many obstacles. The study finds revealed that the internal audit departments are usually under- resourced.
- Doubt should never be casted on the influence of auditor independence on the financial performance of banking institutions in Zimbabwe. As a result, top management of the sector, should not interfere or victimise internal audit officers in the course of performing their mandatory tasks. The sole aim is to improve the financial performance of the organisation through achieving maximum auditor independence.
- Lastly, the study showed that internal environment audit practices directly influence financial performance. However, although the study showed that the internal audit functions of the Zimbabwe's banking sector operate within the dictates of specific organisations' audit charters, these should be regularly reviewed and updated so that current changes in the financial sector are incorporated into the audit charters to improve financial performance.
- The internal controls should be adjusted to incorporate the Zimbabwe's ever- changing macro-economic policies and the inevitable pressure to migrate the banking services from manual operations to online banking platforms.

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