

**INTERNAL AUDIT PRACTICES AND FINANCIAL PERFORMANCE OF BANKS IN
TANZANIA, A CASE STUDY OF CORPORATIVE RURAL AND DEVELOPMENT
BANK**

A Dissertation

Submitted to Directorate of
Postgraduate Studies and Research,
Kampala International University in Tanzania

In Partial Fulfilment of the Requirements of the Degree
Master in Business Administration (Finance and Banking).

By

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FEBRUARY, 2019

DECLARATION

I SCARION OSCAR hereby declare that this dissertation entitled “Internal Audit Practices and Financial Performance of Banks in Tanzania. A case study of Corporative Rural Development Bank (CRDB)” is my original work; neither whole nor part of it has ever been submitted to any University or Institution of higher learning before.

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APPROVAL

This is to attest that this dissertation entitled “Internal Audit Practices and Financial Performance of Banks in Tanzania. A case study of Corporative Rural Development Bank (CRDB) has been submitted for examination with my approval as authorized University Supervisor.

DR. WARIO WAKO

Date

DEDICATION

I dedicate this thesis to Almighty God and my beloved parents Mr. Oscar Sylivester and Magreth Oscar.

ACKNOWLEDGMENTS

I would like to thank my research supervisor Dr. Warriio Wako and Mr. Peter Kibada for their guidance, support and constructive criticism which made this work to be more perfect.

I would like to give a special thank to my parents, aunt, sister, my young brother, classmates, friends and workmates for their daily encouragements which made me to be more strong data collection, data analysis and writing process, may God bless them abundantly. Sincerely I thank them for their full supports, encouragement and prayers during the study.

I would like to express my deepest enjoyment to all those who provided me the possibility to complete this report in one way or another through their prayers, resources and encouragement.

Special thanks go to my lecturers, for good guidance, direction and advice gave to me throughout the period for under taking this course. Their efforts, counseling, advices and supervision are highly valued, may God bless them abundantly.

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LIST OF ABBREVIATIONS

ACCA	Audit and Assurance Services
ALAT	Association of Local Government Authorities
BAFIA	Banking and Financial Institutions Act
CAG	Controller and Auditor General
CRDB	Commercial Rural Development Bank
GPFR	General Purpose Financial Report
IAS	Internal accounting system
IESBA	International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants
IPSAS	International Public Sector Accounting Standards
ISA	International Standards on Auditing
LGA	Local Government Authority
MDAs	Ministries, Departments and Agencies
NBAA	National Board of Accountants and Auditors
NBC	National Bank of Commerce
NMB	National Microfinance Bank Limited
NSSF	National Social Security
PLC	Public
PSSF	Public Social Security
SAP	Statements of Standard Auditing Practices

SPSS Statistical Package for Social Science

TRA Tanzania Revenue Authority

TTU Tanzania Teachers Union

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ABSTRACT

The study was to assess internal audit practices and financial performance of Banks in Tanzania, where the case study was CRDB bank. The main objective was, to assess internal audit practices and financial performance of Banks in Tanzania. While the specific objectives were; to assess the relationship between internal audit independence and financial performance of CRDB, to analyze the effect of internal audit quality practices on financial performance of CRDB and to examine the effect of internal audit control system on financial performance of CRDB.

The study target population comprised of 105 individuals drawn from different units; auditors, finance officers, accountant officers, cashiers and loan officer of CRDB Bank and the sample size of this study was 83 respondents. The researcher analyzed data both quantitative and qualitative data. The study used a case study method with the true essence, explore and case investigate contemporary was to enable the researcher to closely examine the impact on internal audit practices on financial performance of banks in Tanzania. In most cases, a case study method selects a small geographical area or a very limited number of individuals as the subjects of study.

From the finding, the study found that the study implies 42 (51%) of the respondents agreed with very high extent that there is very high extent positive impacts of internal audit independence and financial performance of CRDB bank and other financial institutions, organization and micro financial credits institutions in Tanzania, the study found that 43 (51%) of the respondents agreed with very high extent that there is a positive relationship between internal audit quality practices and financial performance of CRDB bank and lastly, the study found 44 (52%) of the respondents agreed with very high extent that a good internal audit control system influences the financial performance of banks in Tanzania.

The internal audit department should be responsible to the organization internal audit committees and internal audit management with sufficient authority to promote independence to influence financial performance, internal audit department of bank should keep internal audit control system to create strong supervision, experience, technology improvement and skills to the internal auditors and there is need for the internal auditors to update their qualities through internal auditor's skills and internal auditor's competence.

CHAPTER ONE

INTRODUCTION

Chapter Overview

This chapter is an introduction which divided into nine sections including, background of the present study, statement of the problems, objectives and purpose, objectives or specific objectives, research questions, hypothesis, scope, significance or justification of the study and operations of the key terms.

1.1 Background of the Study

The background of the study describes the historical perspective of the study, theoretical perspectives, conceptual perspectives and contextual perspectives.

1.1.1 Historical Perspectives

Globally, the word audit comes from the Latin word “audire” meaning “to hear”. “Auditing is mainly concern with the verification of accounting data which determining the accuracy and reliability of accounting statement and records”. An internal audit practice is the examination of the financial report of an organization as represented in the annual report by some one independent in the organization (Moutz R.K. 1964).

The demand for internal auditing is sourced in the need to have some means of independent verification to reduce record-keeping errors, incompleteness data, asset misappropriation, and fraud within business and non business organizations. The roots of auditing, in general, are intuitively described by accounting historian Richard Brown 1905, quoted in Mautz & Sharaf, 1961 as follows: “The origin of auditing goes back to times scarcely less remote than that of accounting. Whenever the advance of civilization brought about the necessity of one man being in trusted to some extent with the property of another, the advisability of some kind of check upon the fidelity of the former would become apparent.”

Historically then, the emergence of double-entry book keeping in circa 1494 A.D. can be directly traced to the critical need for exercising stewardship and control. Throughout European history, for instance, fraud cases such as the South Sea bubble of the 18th century, and the tulip scandal provided the justification for exercising more control over managers.

In Europe, the European systems of book keeping and auditing were introduced into the United States. As business activities grew in size, scope, and complexity, a critical need for a separate internal assurance function that would verify the (accounting) information used for decision-making by management emerged. Management needed some means of evaluating not only the efficiency of work performed for the business but also the honesty of its employees. Around the turn of the 20th century, the establishment of a formal internal audit function to which these responsibilities could be delegated was seen as the logical answer. In due course, the internal audit function became responsible for “careful collection and interpretive reporting of selected business facts” to enable management to keep track of significant business developments, activities, and results from diverse and voluminous transactions (Mautz, 1964).

Companies in the railroad, defense, and retail industries had long recognized the value of internal audit services, going far beyond financial statement auditing and devoted to furnishing reliable operating reports containing non-financial data such as “quantities of parts in short supply, adherence to schedules, and quality of the product” (Whittington & Pany, 1998).

Similarly, the U.S. General Accounting Office (GAO) and numerous State Auditors’ Offices, for instance, the State of Ohio Auditors’ Office, have traditionally employed large numbers of internal auditors. In sum, the collective effect of growing transaction complexity and volume, the owner or manager’s or “principals” remoteness from the source of transactions and potential bias of reporting parties (agents), technical accounting expertise required to review and summarize business activities in a meaningful way, need for organizational status to ensure independence and objectivity, as well as the procedural discipline necessary for being the “eyes and ears” of management all contributed to the creation of an internal audit department within business organizations (Whittington & Pany, 1998).

Starting as an internal business function primarily focused on protection against payroll fraud, loss of cash, and other assets, internal audit’s scope was quickly extended to the verification of almost all financial transactions, and still later, gradually moved from an “audit for management” emphasis to an “audit of management” approach (Reeve, 1986).

Africa, Internal auditing’ in Ethiopia was formally recognized in the early 1930s by the country’s first Constitution. This document referred to the proper collection of state revenue and the

necessity for procedures to control expenditures. In 1944, another milestone occurred when a proclamation established the Commission for Audit, charged with auditing the Ministry of Finance accounts. The development of state budget practices, an emphasis on fraud deterrence, and growth in trade and industry subsequently added impetus to the growth of the profession (Hamdu et al, 2014).

As to (Lemma Argaw 2000), the ministry of education, ministry of national defense and the ministry of finance were pioneers in implementing the internal audit practice in Ethiopia. He revealed this fact as follows. ‘An Internal Auditing function has existed for quite a long time in Ethiopia; however, it got legal recognition in late 1980s. The internal auditing function started in the budgetary public sector as part of internal control. However, the latter part of the 1940s witnessed the establishment of Internal Audit functions in the Ministry of National Defense, Ministry of Education, and Ministry of Finance.

It was also at this time that the Internal Auditing units began to sprout in non-budgetary public sector (public enterprises) like Ethiopian Highway Authority, Ethiopian Airlines, Ethiopian Telecommunications, and financial sector that formed the modern layer of the National Economy” (Lemma, 2000). Perhaps the most direct impact on the current status of internal auditing in Ethiopia came from another important document issued in 1987, Proclamation No.13 (Welde-Ruphael, 1998).

In Tanzania, during British colonialism and soon before independence of Tanganyika, the National Audit Office was called “the Audit Department”. It was part of the British overseas audit services based in London, England. The head of this office was called the director of audit as per the audit ordinance Cap 86 that was governing audit activities since 1957. The daily audit activities of the audit department were governed by colonial regulations and general instructions and rules of the overseas audit department in London. The office had only one office located in Dar es Salaam at Kivukoni Front Street. It was auditing the accounts of the whole government as the Government management system was centralized. The first branch to be opened in the country was Arusha audit branch; the main auditee of this branch was the Tanganyika custodian of the enemy property department based in Arusha.

1.1.2 Theoretical Perspectives

This study based on the following theories, agency theory by Meckling and Jensen (2000), Lending Credibility Theory by Hayes & Knechel, (2006), The Policeman Theory by Itton (2010) and Theory of Inspired Confidence by Sarens & Beelde, (2006). Agency Theory explains about the agency relationship contract exists between one or more persons-the principal and another person or agent to perform some service on their behalf, which involves delegating some decision making authority to the agent. Agency theory had helped the study to explain the existence of internal audit in organizations but can also help explain some of the characteristics of the internal audit department, for example, its size, and the scope of its activities, such as operational internal auditing versus financial performance within the organization.

The Policeman Theory, Itton (2010), “The policeman theory suggests that the auditor is responsible for searching, discovering and preventing fraud within the organization”. However, The Policeman Theory is very help because the main focus of internal auditing practices to provide reasonable assurance and verify the fairness and truth of financial statements which leads to the organization financial performance.

Lending Credibility Theory states the primary function of internal audit practices is to add credibility to the financial statements as suggested by the theory of lending credibility. Lending credibility theory is used by the management on the firm’s audited financial statements to assure the stakeholder’s of quality in management’s leadership hence leads to financial performance.

Theory of Inspired Confidence explains the demand for audit services is the direct consequence of the participation of third parties in the company in which they demand accountability from the management, in return for their investments in the company”. The theory of inspired confidence addresses both the demand and supply for internal audit services. The theory had helped a researcher during the study to measure accountability in the construction industry management may be realized through the issuance of periodic financial reports concerning the financial performance of banks in CRDB bank, Tanzania.

1.1.3 Conceptual Perspectives

This study has Internal Audit Practices such as internal audit independence, internal auditor's control system and auditor's quality on Financial Performance as dependent variable.

Internal audit practices: Internal auditing is the activity of objective examination of all activities of economic entities in the real purpose of independent evaluation, risk management and control and their processes. Internal Audit has as aims; verification of compliance of the economic entity audited policies, programs and their management in accordance with legal provisions, evaluating the implementation of financial and non-financial controls and arranged and performed by the head entity in order to increase economic and financial efficiency, evaluating the adequacy of financial and non-financial data and information for management to know the reality of the economic entity and protecting those assets and off balance sheet and identify measures to prevent fraud and losses of any kind. Internal Auditing practices performing different functions such as; examination evaluation and monitoring the adequacy and effectiveness of internal control (Paramasivan&Subramanian 2016).

Financial performance: Financial performance of commercial banks is the process of measuring the results of an organization's, business firm's policies and operations in monetary terms. It is used to measure firm's overall financial health over a given period of time and can also be used to compare similar firms across the same industry or to compare industries or sectors in aggregation. Elements of financial performance are: liquidity, solvency, profitability and financial efficiency (Paramasivan&Subramanian 2016).

1.1.4 Contextual Perspectives

CRDB Bank Plc is an African bank and a leading Financial Services Provider in Tanzania with current presence in Tanzania and Burundi, East Africa. The Bank was established in 1996 and was listed on the Dar Es Salaam Stock Exchange (DSE) in June 2009. Over the years, CRDB Bank has grown to become the most innovative and preferred financial services partner in the region. Supported by a healthily portfolio and uniquely tailored products, CRDB Bank remains the most responsive bank in the region. The researcher found it imperative to use CRDB as case, because of its high performance, that enabled a researcher to gauge the performance of CRDB by internal audit practices practiced by the bank.

1.2 Statement of the Problem

Banks in Tanzania have been struggling showing the improvement in financial performance (BOT, 2018). These poor financial performances of bank may be attributed to various factors such as poor management, poor internal audit control system, inadequate human resource skills and economic hardship in the country. On January 2018 Bank of Tanzania closed down five banks and placed them under receivership. These banks were: Covenant Bank for Women, Efatha Bank Limited, Njombe Community Bank Limited, Meru Community Bank Limited and Kagera Farmer's Cooperative Bank Limited (the Guardian Newspaper, 2018).

However, as these banks were being closed due to poor performance, CRDB Bank continued to perform exponentially. CRDB Bank net profit in 2016 was TZS 74.1 billion, in 2017 net profit was TZS 129.0 billion. This is a significant performance growth. Total assets of the group increased to 5.42 trillion, in 2017 up from 5.23 trillion in 2016. This visible financial performance of CRDB has led to the researcher to design this study to investigate whether this performance is influenced by internal auditing practices done by CRDB. Studies have been done on internal auditing such as those of Harrison (2015), influence of audit independence on financial performance of SME's in Kenya, Njanike et al (2011) factors that influence the internal audit controls in ensuring good cooperate governance in Zimbabwe. However, these studies were done in other countries and the studies did not focus on internal audit practices and bank financial performance.

1.3 General Objectives of the Study

The general objective was to asses internal audit practices and financial performance at the CRDB Bank.

1.4 Specific Objectives

The study had the following specific objectives;

- i. To assess the impact of internal audit independence and financial performance of CRDB.
- ii. To analyze the effect of internal audit quality practices on financial performance of CRDB.

- iii. To examine the effect of internal audit control system on financial performance of CRDB.

1.5 Research Questions

The research was guided by the following specific research questions;

- i. What is the significance impact of internal audit independence and financial performance of CRDB?
- ii. What are the effects of internal audit quality practices on financial performance of CRDB?
- iii. What are the effect of internal audit control system and financial performance of CRDB?

1.6 Hypotheses

H1: There is significance relationship between internal audit practices on financial performance in Tanzania.

H0: There is no significance relationship between internal audit practices and financial performance in Tanzania.

1.7 Scope of the Study

The section describes the geographical scope, theoretical scope, content scope and time scope.

1.7.1 Geographical Scope

The study conducted on Corporative Rural Development Bank (CRDB), Head Quarter (HQ) which located in Ilala District, within Dar Es Salaam Region, Tanzania. The researcher purposefully selected the CRDB Bank because is the one of the leading bank which having highly financial performance in the past ten years in Tanzania.

1.7.2 Theoretical Scope

The study based on Lending Credibility Theory which states that the primary function of internal audit practices is to add credibility to the financial statements as suggested by the theory of lending credibility. Lending credibility theory is used by the management on the firm's audited financial statements to assure the stakeholder's of quality in management's leadership which helps to highly financial performance (Hayes & Knechel, 2006). Lending Credibility Theory had

helped the researcher to investigate the impacts of internal audit practices and financial performance by considering both independent and dependent variables, which indicates that internal audit practices influence the financial performance to the CRDB Bank.

1.7.3 Content Scope

The study focus on internal audit practices and financial performance, the best elements for internal audit practices include internal audit independence, internal auditor's control system and internal auditor's quality. Financial performance in this study focused on profitability and financial efficiency of the organization.

1.7.4 Time Scope

The study focused on internal audit practices and financial performance of CRDB bank from the year 2008 to 2018. This time is enough to show the level of internal audit practices and the results in terms of financial performance. This time is being selected because over the last ten years the BOT has been put more emphasis on internal auditing practices on financial performance in order to keep more trust to the customers.

1.8 Significance of the Study

This study is may help in enhancing the role of internal audit in management staff to make them more successful and expert. It help the shareholders welcome the role of the internal audit practices as a standout amongst the most essential administrative control frameworks in an organization required to shield their interests.

Also the study may help many financial institutions and public sector financial organizations in particular to reduce the overhead identify ways to improve efficiency and maximize exposure to possible losses from inadequately safeguarded company assets all of which can have a significant effect on the bottom-line due to an effective internal audit service.

For researchers it may help them to acknowledge and upgrade their insight into inside review to hold fast to the expert morals as required by the Internal Accounting System (IAS). The finding also help the researcher to understand why organizations perform the way they do in terms of financial factor, despite internal controls put in place. The students and academics would use this

study as a basis for discussions on the corporate governance practices and how these affect financial performances.

Also, the study will help the researcher to gain more skills, knowledge and competences particularly in internal audit practices areas to the financial performance improvement for running financial institutions or banks.

1.9 Definition of Key Terms

Auditing: Is a systematic process of objectively obtaining and evaluating the information or statements to assess their degree of compliance with predetermined criteria, and communication of results to interested users or customers. The audit consists of checking and certifying the financial statements by an independent expert to provide an opinion on the facts and accuracy of the data contained therein. The role of audit is to provide users with information on the principles and accounting practices and accounting and presentation of financial statements accurate picture, clear and complete financial position and financial performance of the company (F. Fadzil, 2003).

Internal auditing: is an overall monitoring activity with responsibility to management for assessing the effectiveness of control procedures which are the responsibility of other functional managers (Kent, 2003).

Internal auditing is taking on increased importance in many of today's global organizations by assisting management in evaluating controls and operations and thereby providing an important element of global control. Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations by emphasizing the organization performance, for instance financial institutions, commercial banks and micro-finance credits (Kent, 2003).

Internal auditing is a cornerstone of good governance and can play an important role in an agency's financial and non-financial management and accountability, and in continuous improvement. In the public sector, internal audit is a critical element in the assurance

environment and is a valuable tool for managing risk more effectively (Victorian Auditor-General's Report 2017–18: 2)

Finance: Paramasivan&Subramanian, (2016) Finance defined as an art and science of managing money. It includes financial service and financial instruments. Finance also is referred as the provision of money at the time when it is needed. Finance function is the procurement of funds and their effective utilization in business concerns.

Financial Performance: is the degree to which financial objectives being or has been accomplished or achieved and is an important aspect of finance risk management. Financial performance is the process of measuring the results of an organization's, business firm's policies and operations in monetary terms (Paramasivan&Subramanian, 2016).

Profitability: is an ability of the institution to generate profits and central investment to security analysis, shareholders, and investors. Profitability is the primary measure of the overall success of enterprise. The analysis of profitability ratios is important for the creditors, banks, shareholders, government and both local and foreign investors (Nishanthini and Nimalathan, 2013).

Financial Efficiency: is the ability to translate its financial resources into mission related activities of the organization. Financial efficiency is desirable in all organizations regardless of individual mission or structure and measures the intensity with which a business uses its assets to generate gross revenues and the effectiveness of producing, purchasing, pricing, financing and marketing decisions which leads to financial performance of the company such CRDB Bank.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

This chapter presents the literature with regard to internal audit practices and financial performance which divided into four sections; Theoretical Review, Empirical or Related Literature Review, Conceptual Review and Research Gap.

2.1 Theoretical Literature Review

The following theories are described in this section to guide the understanding of the topic at hand. The theories are Agency Theory, Theory of Inspired Confidence, The Policeman Theory and Lending Credibility Theory.

2.1.1 Agency Theory

Meckling and Jensen (2000), agency relationship contract exists between one or more persons- the principal and another person (agent) to perform some service on their behalf, which involves delegating some decision making authority to the agent. Agency theory evolution also owes much to the corporate governance literature, which analyzes the problem of separation of ownership and control (Grabling *et al.*, 2004). In the construction industry, an internal audit practice plays an important role in reducing both information asymmetry by empirically confirming the validity of financial statements and agency problems. The principal- agent conflict is illustrated in agency theory, where principal (owner) lacks reasons to believe their agents (managers) due to information asymmetries and contradictory motives (Hillebrandt, 2000). The first proposers of the agency theory were the Scholars Mitnick and Ross (2006).

Jensen and Meckling (1976), states that in agency theory, agents have more information than principals and this information asymmetry adversely affects the principals' ability to monitor whether or not their interests are being properly served by the agents. The agency theory proposes that a firm's main objective is to maximize the shareholders wealth. The theory states that the organization consists of principals who are the owners of the economic resources and the

agents who are the managers of the principal's resources. One objection to agency theory is that it relies on an assumption of self-interested agents who seek to maximize personal economic wealth.

The agency theory help the study to explain the existence of internal audit in organizations but can also help explain some of the characteristics of the internal audit department, for example, its size, and the scope of its activities, such as operational internal auditing versus financial performance within the organization. Agency theory contends that internal auditing, in common with other intervention mechanisms like financial reporting and external audit, helps to maintain cost-efficient contracting between owners and managers, through cost efficient led to financial performance within the organization.

2.1.2 Lending Credibility Theory

The primary function of internal audit practices is to add credibility to the financial statements as suggested by the theory of lending credibility (Hayes & Knechel, 2006). Lending credibility theory is used by the management on the firm's audited financial statements to assure the stakeholder's of quality in management's leadership. In this view, the service that the auditors are selling to the clients is credibility (Watts, 2010). In the construction industry, audited financial statements are seen to have elements that increase the financial statement users' confidence in the figures presented by the management (Hillebrandt, 2000). The users' are perceived to gain benefits from the increased credibility. These benefits consider the quality of investment decisions improve when they are based on reliable information (Bon, 1992).

The theory help the study to explore or to explain the auditor's report in order comment on how accurately the bank presents its financial situation and how it is performing. This should support the shareholders that their investment is secured and also help to reduce the practice of misleading accounting procedures designed to show the company in a more favorable light. Essentially, the internal audit is represented as a process designed to evaluate the credibility of information of bank's financial statements.

2.1.3 The Policeman Theory

Itton (2010), "The policeman theory suggests that the auditor is responsible for searching, discovering and preventing fraud within the organization". The Policeman Theory is very help

to the study because, the main focus of internal auditing is to provide reasonable assurance and verify the fairness and truth of financial statements. Hayes et al (2005) recently, the auditors' responsibility to discover fraud has been relevant, whereby the main purpose to the financial performance and development of the organization.

The theory helps the study to provide reasonable assurance and verify the fairness and truth of financial statements and increase responsibility to internal auditors to discover the financial frauds, increases physical control, information processing controls and monitoring its led internal auditors to gain skills and competence which bring positive impacts on financial performance.

2.1.4 Theory of Inspired Confidence

This theory was developed in the late 1920s by the Dutch professor Theodore Limperg (Hayes et al., 1999). Limperg's theory addresses both the demand for and the supply of audit services. The demand for audit services is the direct consequence of the participation of third parties in the company in which they demand accountability from the management, in return for their investments in the company (Sarens & Beelde, 2006). The theory of inspired confidence addresses both the demand and supply for internal audit services.

The theory help the study to increase accountability in the construction industry realized through the issuance of periodic financial reports concerning the financial performance of banks in CRDB bank, Tanzania.

However, since this information provided by the management being biased and outside parties has no direct means of monitoring, an internal audit is required to assure the reliability of this information. With regard to the supply of internal audit assurance, the auditor should always strive to meet organization expectations such as financial performance.

2.2 Empirical Literature Review

The empirical literature review analyses previous researches related to this study to establish the research gap. The subsequent part provides a review of key studies conducted in and out of Tanzania.

2.2.1 Internal Audit Independence and Financial Performance

Independence is the freedom from conditions that threaten objectivity or the appearance of objectivity. Such threats to objectivity must be managed at the individual auditor, engagement, functional and organizational levels.

Stewart & Subramaniam, (2008), auditor independence and objectivity are the cornerstones of the profession. The assurance services provided by auditors derive their value and credibility from the fundamental assumptions of independence of mind and independence in appearance, in more recent years, there has been heightened interest in issues associated with the independence and objectivity of internal audit. The motivation for research growth in the area is related to the evolving and expanding role of internal audit as a key corporate governance mechanism as well as an internal consultancy service and financial performance of banks. In this regard, internal auditors are in a unique situation as providers of both assurance services within the organization and consultancy services to managers.

Internal auditor must be independent of both the personnel and operational activities of an organization. Otherwise, the integrity of the auditor's opinions, conclusions and recommendations would be suspect. So, independence is necessary for the effective achievement of the function and objective of internal audit. This independence is obtained mainly from two characteristics organizational status and objectivity (Cai Chun 1997). Internal audit should be an independent and objectives function. However this independence can be comprised, particularly where reporting lines are through to operational areas upon which they are required to review and report. Where internal auditors have moved to the internal audit department from an operational area, they should not be involved in audits of that department for a minimum of a year. Whilst they might be seen to have excellent knowledge to the area, their independence could be comprised.

Kibet (2008) revealed that there was greater variation in financial performance of commercial banks due to changes in internal audit standards, independence of internal audit, professional competency and internal control. This shows that changes in financial performance of commercial banks could be accounted for by changes in internal audit standards, independence of internal audit, professional competency and internal control. It was also established that there was a strong positive relationship between financial performance of commercial banks and

internal audit standards, independence of internal audit, professional competency and internal audit control of an organization.

Goodwin (2010), the independence and objectivity of internal auditors are in a unique situation as providers of both assurance services within the organization and consultancy services to managers of the commercial banks which contributes to financial performance of banks, with the current emphasis on corporate sustainability and the need to mitigate and adapt to climate change, many banks are producing sustainability reports, which contain a mix of quantitative and qualitative data help to development and highly financial performance of an organization.

Kagashe (2008) assessed the effectiveness of internal audit services unit in safeguarding public resources in LGAs in Tanzania using Kibaha District Council as a case study. A sample of 25 respondents was used to provide research data. The study revealed that Internal Auditor's reports lack of sound internal control over the council's resources as a result of management laxity over instituting, supporting and supervising the internal control is place. The study also revealed that Internal Audit Unit lack independence in carrying out audit functions in terms of reporting mechanism and programme of work. Other problems facing Internal Audit Units identified by this study was lack of financial and material support, lack of management support in implementing audit recommendations, lack of essential expertise, and inadequate knowledge and experience of Internal Auditors.

Harrison (2015) assessed the influence of internal audit independence on the financial performance of small and medium enterprises: a case of the construction industry in Mombasa County, Kenya. From the researcher, it was evident that some construction companies within Mombasa County did not accord the internal auditors the independence they deserved to effectively give their opinion on the financial statements of the organizations. Some records in some organizations were not accessed by the auditors to enable them perform their work comprehensively. In some companies the auditors were treated as part of the management thus making it difficult for them to form an independent opinion on the financial statements. Although the auditors had the required qualifications in some cases, the management of the organizations did not appreciate that. The auditors had their roles of ensuring that the

management of the firms discharged their responsibilities through giving them the required advices.

The design used in this study was a survey where use of methods such as questionnaires and published data was made (Gable, 1994). The procedure involved an arrangement of conditions for collection and analysis of data in a manner that aimed to combine relevance to the research purpose with economy in procedure. The study involved a large and scattered population of construction companies in Mombasa County. Respondents were picked from internal auditors, assistant 29 auditors and members of the audit committee in the construction companies in Mombasa County since they were knowledgeable on audit matters in different companies.

However, the study showed that some construction companies were generally precognitive of the internal audit function independence. It was found that records for compiling audit reports were provided in most companies. Some major areas such as, internal control systems and contribution of financial performance by both audit committee members and the internal auditors' functions independence were found to be weak during the study in operations, objectivity and accountability in the organizations. The reporting structure in some construction companies was generally weak thus affecting the internal auditors' independence. In most organizations, internal auditors were not fully recognized for their important roles of checking and reporting on the financial records of the organizations. According to the study, the general level of internal audit independence in the construction companies is relatively weak and in some cases non-existence.

The researcher found that or given out recommendations that there was need for construction companies in Mombasa County to according the internal auditors the independence they required in forming their opinion on the financial statements. The government needs to intervene so as to save the internal audit profession. This can be done through public education where, the minister for commerce and industry should coordinate with the relevant professional bodies like to educate the management of companies in the construction industry on the importance of internal audit independence.

2.2.2 Internal Auditor's Control System and Financial Performance

Abdi (2015) investigated the impact of internal audit control system on financial performance in Somalia- Mogadishu private banks. The demographic profile of the respondents was age, gender, qualification and experience. The main objectives were to assess the functionality of internal control systems in Mogadishu private banks and to examine financial performance of private 12 banks in Mogadishu. The study was based on 33 target population especially Accountants, finance directors, chief cashiers, internal auditors and managers of private banks in Mogadishu. Descriptive analysis was used. It administers questionnaire as a research instrument. The findings of this study reveal that majority of the private banks in Mogadishu has enough cash to meet its intended goals. Also there is a clear separation of duties. This study suggests that the internal auditors perform their duties fast, efficient and reliable.

A study by Muraleetharan (2010) in determining the impact of internal audit control system on financial performance found a very significant relationship between internal control and financial performance ($R^2 = 0.818$). This finding is similar to that of Mawanda (2008) who sought to find the effects of internal control systems on financial performance in institution of higher learning in Uganda. The research findings showed a significant impact of internal control systems on financial performance.

Njanike, Mutengezanwa and Gombarume (2011) assessed factors that influence the internal audit controls in ensuring good corporate governance in financial institutions in developing economies with special reference to Zimbabwe. The research paper assessed how lack of internal audit controls affected good corporate governance and aimed to bring out elements of good corporate governance. It emerged that failure to effectively implement internal audit controls contributed significantly to poor corporate governance. The study discovered that internal control system overrides and the issue of “fact cat” directors also contributed to poor corporate governance.

Mwakimasinde, Odhiambo and Byaruhanga (2014) investigated the effect of internal audit control systems on the financial performance of sugarcane outgrower companies in Kenya. The study adopted a descriptive correlation survey design. All the sugarcane out grower companies was studied. Both the primary and secondary data was collected. Primary data was collected from the key informants from all the nine out grower companies in Kenya using questionnaires.

Secondary data was extracted from annual reports, publications and document analysis. The key informant's method was used, hence, all the Finance Managers and heads of internal audit for every out grower company were selected to take part in the study. The data collection instruments were administered to all the nine sugarcane out grower institutions. The data was analyzed using statistical package for social scientists (SPSS) computer software version 19.0 to generate cumulative frequencies and percentages. The study found a positive significant effect of internal audit control system on the financial performance.

Nyakundi, Nyamita and Tinega (2014) investigated the effect of internal audit control systems on financial performance among Small and Medium scale Enterprises in Kisumu city, Kenya; specifically assessing the relationship between internal control systems and return on investment and establishing the level of business knowledge of an entrepreneur in internal audit control systems and its effect on financial performance. The sample was selected from the study population through stratified and simple random sampling techniques. The research was conducted using both quantitative and qualitative approaches; adapting cross-sectional survey research design. The study used both primary and secondary data. Primary data was collected using structured questionnaire and interview, while secondary data was obtained from financial statements of the sampled enterprises. Data was analyzed using descriptive statistics as well as inferential statistics. The study specifically revealed that a significant change in financial performance is linked to internal controls systems. Based on the findings of the study, it is concluded that internal audit control systems as supported by the study findings significantly influence the financial performance of public water companies in Kenya.

Kinyua (2016) examined the effect of internal audit control systems on financial performance of companies quoted in the Nairobi securities exchange. The main objective of the study was to determine the effect of internal audit control systems on financial performance of companies quoted in the Nairobi securities exchange. The study was considered relevant to our investigation because it examined the impact of internal control on financial performance. The study which was a primary data study adopted the descriptive research design and data were collected using structured questionnaire. The study found that internal audit control has a significant relationship with financial performance and concluded that internal auditing control system is a positive

significant predictor of financial performance. The findings of the study, according to the author, suggest that internal audit control systems especially risk management, corporate governance, control activity, internal control environment and internal audit function are significant areas management of companies should give great attention to in order to improve their financial performance.

Etengu & Amony (2016) examined the role of internal auditing control system on the financial performance of non-governmental organizations in Uganda. The purpose of the study was to establish the effect of control environment, control activities and monitoring on the financial performance of non-governmental organizations in Uganda using International Union for Conservation of Nature as case study. The survey design was adopted for the study and data were obtained using structured questionnaire and interview; hence, the study was a primary data study. The findings of the study revealed a significant relationship between each of the measures of internal control such as availability physical control, system approvals and authorization, , information processing and sharing, assessment of risks, system of verification on bank reconciliation, control environment, control activities and monitoring financial activities and financial performance. The study recommended that control environment, control activities, and monitoring should be enhanced in order to further improve the financial performance of International Union for Conservation of Nature.

Njeri (2014) investigated the effect of internal auditing controls and the financial performance of manufacturing firms in Kenya. The primary objective of the study was to determine the effect of internal auditing control system on financial performance of manufacturing firms in Kenya. Twenty (20) manufacturing firms constituted the sample of the study. The study used primary and secondary data. Primary data were obtained using structured questionnaire while secondary data were obtained from the financial statements of the manufacturing firms surveyed. The study which adopted the multiple regression approach to data analysis found that most of the manufacturing firms surveyed had a strong control environment which impacted positively on the financial performance of the firms. The study concluded that manufacturing firms that had invested on effective internal control systems had improved financial performance as compared to those manufacturing firms that had a weak internal control system. Consequently, it was

recommended that the governing body of manufacturing firms, supported by the audit committee, should ensure that the internal audit control system is periodically monitored and evaluated by the board management of the organization or banks.

2.2.3 Internal Auditor's Quality and Financial Performance

DeAngelo (1981) defines audit quality as "the market-assessed joint probability that a given to an auditor to discover both a breach in the client's accounting system, and report the breach. This definition contains two aspects of audit quality such as the competence of the auditor for detecting misstatements and the independence of the auditor for reporting such misstatements. Although this is the most cited definition of audit quality, the problem is that audit quality according this definition cannot be observed let alone measured. Hence audit quality measures based on this definition are indirect methods of measuring audit quality with the aid of indicators." Probably the most used proxy in audit quality research studies is the statistical estimation of discretionary accruals in financial statements. The assumption is that companies' representatives attempt to manage the annual results such they benefit the most. Audit quality in this sense means how well the auditor can prevent discretionary accruals in the financial statement.

Farouk & Hassan, (2014).Internal audit quality plays an important role in maintaining an efficient market environment; an independent quality audit underpins confidence in the credibility and integrity of financial statements which is essential for well functioning markets and enhanced financial performance. Internal audits performed in accordance with high quality auditing standards can promote the implementation of accounting standards by reporting entities and help ensure that their financial statements are reliable, transparent and useful. Internal audits practices help to reinforce strong corporate governance, risk management and internal control at firms, thus contributing to organization's financial performance. Internal auditing assist to ensure that all financial transactions are in order that give the users of the financial statements more trust and confidence in terms of the quality of audited reports.

Zureigat (2010) examined the effect of financial structure among Jordanian listed firms on audit quality. Using a sample of 198 companies, his analysis of logistic regression shows a significant

positive relationship between audit quality and financial structure. Nam (2011), examined the relationship between audit fees as a proxy for auditor independence and audit quality of firms in New Zealand. Employing three multiple regression models for a sample of New Zealand companies, his study discovered that the provision of non-audit services by the auditors of a firm comprises the auditor's independence, abnormal audit fee change rate is negatively associated with audit quality and auditor's independence of the previous year impacts on the audit fee that is negotiated in the current year.

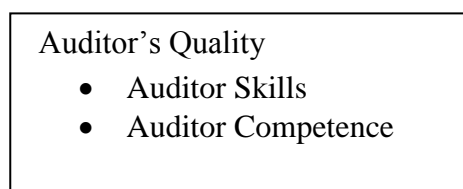
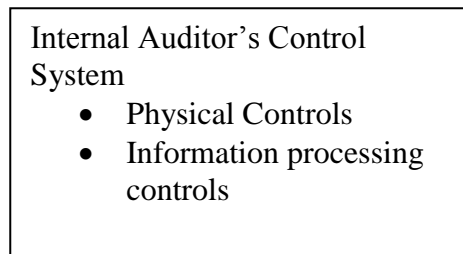
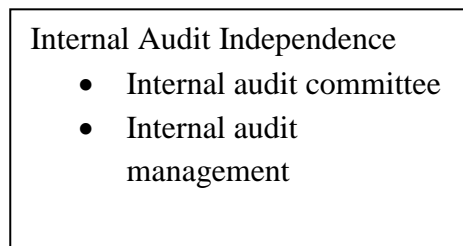
De Angelo (1981) has theoretically analyzed the relationship between audit quality and auditor's size on financial performance. Ebrahim (2001) observes that De Angelo (1981) argues that large auditors will have more clients and their total fees will be allocated among those clients. De Angelo (1981) argued that large auditors can contain the loss of a client and therefore, will provide higher quality of audit. Ebrahim (2001), states that the results of some empirical papers have provided additional support for the use of auditor size as a proxy for audit quality. Davidson (1993) used an indirect method to support the argument that size is a good proxy for audit quality influences on financial performance within the organization. He argued that managers have incentives to manipulate the reported earnings to meet the analyst's forecasts. Therefore, if large auditing firms provide higher-quality audits than small auditing firms, may expect that the forecast errors of big auditing firms' clients will be larger than those of small auditing firms' clients which may brought highly financial performance. Using data from Canadian firms, his results support that auditor size is a good proxy for auditor quality on the financial performance.

2.3 Conceptual Framework

The conceptual framework describes the independent and dependent variables. The independent variables include internal audit independence, internal auditor's control system and internal audit quality. The dependent variable in this study is financial performance which includes profitability and financial efficiency, where by the case study focus on CRDB in Tanzania.

Independent Variables

Internal Audit Practices



Dependent Variables

Financial Performance

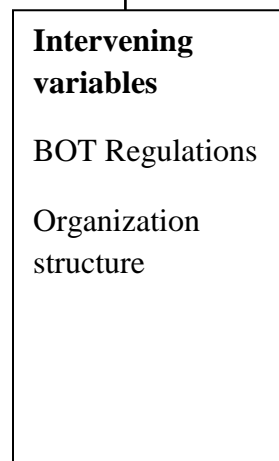
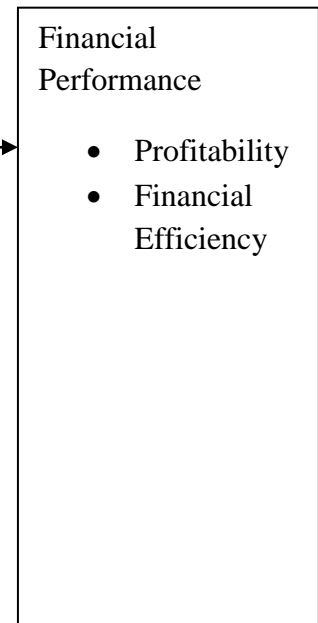


Figure 2.1: Conceptual Framework

Source: Researcher (2018)

2.3.1 Internal Audit Independence

Auditor independence and objectivity are the cornerstones of the profession. The assurance services provided by auditors derive their value and credibility from the fundamental assumptions of independence of mind and independence in appearance. In more recent years, there has been heightened interest in issues associated with the independence and objectivity of internal audit. Internal auditors are in a unique situation as providers of both assurance services within the organization and consultancy services to managers which led to financial performance in any organization or company. Internal audit independence for performing better in the organization are size of internal audit, internal audit committee and internal audit management (Stewart & Subramaniam, 2008).

2.3.2 Internal Auditor's Control System

Internal controls refer to the measures instituted by an organization so as to ensure attainment of the entity's objectives, goals and missions. Internal audit control system are processes designed and affected by those charged with governance, management, and other personnel to provide reasonable assurance about the achievement of an entity's objectives with regard to reliability of the financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations. For highly performing of internal auditor's control system functioning through physical controls, segregation of duties, system of approvals and authorization, information processing and sharing (Nyakundi, et al 2014).

2.3.3 Internal Auditor's Quality

Audit quality plays an important role in maintaining financial performance of the banks, whereby an independent quality audit underpins confidence in the credibility and integrity of financial statements which is essential for well functioning markets and enhanced organizational performance. Internal audits performed in accordance with high quality auditing standards can promote the implementation of accounting standards by reporting entities and help ensure that their financial statements are reliable, transparent and useful. The elements or measurements for internal auditor's quality contribute much in auditing quality which emphasize to finance performance are auditor fees, auditor skills and auditor's competences (Farouk & Hassan, 2014).

2.3.4 Financial Performance

Financial performance refers to the act of performing financial activity. In broader sense, financial performance refers to the degree to which financial objectives are being or have been accomplished. It is the process of measuring the results of a firm's policies and operations in monetary terms. It is used to measure firm's overall financial health over a given period of time and can also be used to compare similar firms across the same industry or to compare industries or sectors in aggregation. Financial performance measure includes profitability and financial efficiency (Metcalf, R. W et al 1976).

Profitability measures the extent to which a business generates a profit from the factors of production, labor, management and capital. Profitability analysis focuses on the relationship

between revenues and expenses and on the level of profits relative to the size of investment in the business, whereas financial efficiency measures the degree of efficiency in using labor, management and capital. Efficiency analysis deals with the relationships between inputs and outputs. Because inputs can be measured in both physical and financial terms, a large number of efficiency measures in addition to financial measures are usually possible.

According to Adebawojo, Enyi & Adebawo (2015), defined performance as the extent to which organizations, viewed as social systems, fulfill their objectives. Thus, performance can be viewed as a composite reflection of how well a bank attains its objectives.

Stoner (2003) described performance as the ability to operate efficiently, profitably, survive, grow and react to environmental opportunities and threats. Performance is “doing today what will lead to measured valued outcomes tomorrow” (Lebas & Euske, 2002). In essence, performance is the result of organizational activities over a given period of time.

Kinyua (2016), argued that financial performance is a measure of a company’s policies and operations in monetary terms. It is a general measure of a firm’s overall financial health over a given period of time, and can be used to compare similar firms across the same industry or to compare industries or sectors in aggregation.

Measurement of Financial Performance

Financial performance is often measured using various variables to determine how well an entity had attained its financial objectives over a period of time. To appreciate how financial performance is measured, it is important to understand what performance measurement is.

Performance measurement is the process of quantifying the efficiency and effectiveness of past action (Illmer, 2011). In more concrete terms, performance measurement is the process of measuring how well organizations are managed against their targets and the value they generate for their stakeholders.

From broader perspective, Upadhaya, Munir, & Blount (2014) pointed out that performance measurement is the process of collecting, analyzing and reporting information regarding the

performance of an individual, group, organisation, system or component. It can involve studying strategies within organisations, to see whether output are in line with what was intended or should have been achieved.

BPP Learning Media (2016) argued that performance measurement aims to establish how well something or somebody is doing in relation to a plan. The ‘thing’ may be a machine, a factory, a subsidiary or an organization as a whole while the ‘body’ may be an individual employee, a manager, or a group of people. Relating the definition of BPP Learning Media to the concept of financial performance, financial performance measurement can said to mean the process of determining how well an organization had attained its financial objectives.

For the aim of this study the financial performance is measured through two categories such as profitability and financial efficiency.

Profitability (Net Profit): banks and many profit making financial institutions such as Public Social Security Fund (PSSF), National Social Security Fund (NSSF), Tanzania Revenue Authority (TRA) and others, utilize accounting profit to measure their performance. Profit can be expressed as either gross profit or net profit. It is the excess of revenue over costs or expenses in a given period of time usually one year, two years or three year. Profitability (net profit) is measured as:

**Net Profit = Revenue Less Cost of sales (or Direct Costs) Less Operating Expenses
(Administration and Distribution Expenses)**

Bank can be said to have performed well financially if the size of its net profit is large, that is, it makes sufficient revenue to cover its direct costs and operating expenses.

Financial efficiency means the effectiveness of financial performance of banks from its normal ordinary or operating activities. Financial efficiency can be generated from sale of manufactured goods or services, financial control, financial environment control, reconciliation, profits generated from the business sale of inventory of goods purchased for resale and from rent of assets.

2.4 Research Gap

Studies have been done such as; Kagashe (2008) assessed the effectiveness of internal audit services unit in safeguarding public resources in LGAs in Tanzania using Kibaha District

Council as a case study, Harrison (2015) assessed the influence of internal audit independence on the financial performance of small and medium enterprises: a case of the construction industry in Mombasa County, Kenya, but the studies mentioned above did not focus on the aspects of internal audit independence which influences the financial performance of banks where by those aspects are independence of internal audit committee, free minded of internal audit management, internal audit reports, plans of internal audit and organization's budget, all studies mentioned failed to discuss positively impacts which contributed by the aspects of internal audit independence which contributes to financial performance.

Mwakimasinde, Odhiambo and Byaruhanga (2014) investigated the effect of internal audit control systems on the financial performance of sugarcane out grower companies in Kenya and Abdi (2015) investigated the impact of internal audit control system on financial performance in Somalia- Mogadishu private banks. Studies mentioned investigated on the effects of internal audits control system on financial performance, but the studies failed to discuss the characteristics of internal audit control system such as physical control, control environments, information processing and sharing, assessment of risks, monitoring financial activities and system of verification on reconciliations which contributes positively on the financial performance of banks. Much as many studies presented above have focused on effective of internal auditing, internal audit control system and obstacles to achieve financial performance, but does not focus on internal auditing practices and financial performance. This creates a literature gap that this study intended to fill it.

CHAPTER THREE

METHODOLOGY

3.0 Introduction

This chapter presents the method to be used, these include research design, population, sampling procedure, sample size, data collection method, reliability and validity instruments, data gathering procedures, data analysis, ethical consideration and limitation of the study.

3.1 Research Design

The study used a case study method was to enables the researcher to closely examine the impact on internal audit practices on financial performance of banks in Tanzania. In most cases, a case study method selects a small geographical area or a very limited number of individuals as the subjects of study. Case studies, in their true essence, explore and case investigate contemporary real-life phenomenon through detailed contextual analysis of a limited number of events or conditions, and their relationships. Yin (1984) defines the case study research method “as an empirical inquiry that investigates a contemporary phenomenon within its real-life context, when the boundaries between phenomenon and context are not clearly evident and in which multiple sources of evidence are used.

3.2 Population of the Study

Population of the study refers to the specific groups which are relevant with a particular study. Population is the group of individual that have the same characteristics (Mugenda and Mugenda 2003). The study target population comprised of 105 employees or individuals who chosen from 3,164 employees in Dar Es Salaam that dealt from different units; such as, auditors, revenue officers, accountant officers, cashiers and loan officer of CRDB Bank, where by quantitative method has been used to determined the target population of the study.

Table 3.1 Target Population of the study

Category of Respondent	Population
Auditors	30
Revenue Officers	23
Accountant Officers	19

Cashiers	19
Loan Officers	14
Total	105

Source: Researcher's design (2018)

3.3 Sampling Procedure

The study used purposive sampling, Mugenda (2003) define purposive sampling as a method that allows the researcher to use respondents with the required information depending on the objectives of the study. According to Kothari (2004), purposive sampling is also known as deliberate sampling which involves the deliberate selection of particular units of the sample size. The researcher made sure that the respondents that he picked have the relevant information concerning the topic. The main goal of purposive sampling is to focus on particular characteristics of a population that are of interest, which enables the researcher to answer the research questions.

3.3.1 Sample Size

A Sample is a part of targeted population under which a researcher determines to conduct the study (Adam and Kamuzora, 2008). The sample size of this study is 83 respondents which include auditors, accountant officers, finance officers, cashiers and loan officers. The sample size was calculated by using Slovene's Formula.

$$n = \frac{N}{1 + N(e)^2}$$

Where;

N = Number of study population

n = Sample size

e = Sampling Error

N = 105

e = 0.05 level of significance

$$n = 105 / 1 + 105(0.05)^2$$

n=83

Table 3.2: Sample Size

Category of Respondent	Sample size
Auditors	27
Finance/Revenue Officers	21
Accountant Officers	11
Cashiers	14
Loan Officers	10
Total	83

Source: Researcher's design (2018)

3.4 Data Collection Method

Both primary and secondary of the study was collected for the research study; data was collected by using Questionnaire method.

3.4.1 Questionnaire Method

A questionnaire is a data collection instrument consistent of a series of questions and other prompts for the purpose of gathering information from respondents. The choice of this data collection technique is due to ease in administration, analysis and cost-effectiveness in terms of time and money. Thorndike (1977) and Kothari (2004) define a questionnaire as a manuscript that constitutes of a number of questions printed or typed in an explicit order on a form or set of forms. The questionnaire comprises of open ended and close ended questions. The use of structured questionnaire guarantees reliability of questions and answers from the respondents.

3.5 Validity and Reliability

The study ensures the validity and reliability of research instruments.

3.5.1 Validity

Validity means accuracy and meaningfulness of inferences which based on the research results. Also, validity is the degree to which results obtained from the analysis of the data, actually represent the phenomena of the study (Mugenda 2003). In testing validity the researcher had

prepared the questionnaires and present to the professionals who have knowledge and skills of internal auditing for analysis and a researcher received suggestions on the relevance, clarity and suitability of the questions, for the face of validity, the professionals and experts or supervisors helped in the observation of the questionnaires whether it measured the objectives of the study thereby many professionals agreed with the questionnaires of the study that relates with the study objectives.

3.5.2 Reliability

Reliability is the consistency of measurement, or the degree to which an instrument measures the same way each time it is used under the same condition with the same subjects. Reliability of the instrument according to Amin (2005) refers to the degree to which they said instrument consistently measures whatever it is measuring, which has done by pre-testing the instrument to confirm reliability using test-retest method. In this, every accessible population of the study was presented; the technique involved administered the same instruments twice to the group of subject. The study used test retest whereby this was involved submitting some questionnaire to the field for testing and the researcher was able to predict the level of consistency.

3.6 Data Gathering Procedure

A researcher had given an introductory letter from the school of post graduates studies and research at Kampala International University in Tanzania as an endowment to conduct the study from respective area of the research study. All research assistants had been selected and educating them about the significance of the study and all procedures which to be carried out during data collection. The permission from CRDB bank Head Quarter authorities provided a letter or document of acceptance to a researcher, there after the respondents was being be informed about the approval and orientation of the study before data collection process.

A researcher also collected a correct documents data or information and checked if all questions answered. Lastly, all information gathered through the questionnaire organized and analyzed by using computerized system software known as Excel package soft ware and Statistical Package of Social Science.

3.7 Data Analysis

Data analysis is the ordering of data into constituent parts in order to obtain answers to the research questions (Rwegoshora, 2006). The researcher analyze data both quantitative and qualitative data by using excel software and Statistical Package of Social Science (SPSS), thereby data have been presented by using various forms such as frequency or number of respondents, cumulative frequency, percentage, tables and pie charts.

3.8 Ethical Consideration

The researcher expresses the honesty, objectivity, integrity, care, openness, confidentiality and respect in reported data, results, methods and procedures, and he avoided fabricate, falsify, or misrepresent data.

Throughout the research study, the researcher avoided everything that could cause discredit on the researcher and the respondents. This had been arrived at by complying with all ethical principles during conducting the survey. Example the principle of voluntary participation that requires people not to be coerced into participating in research, adhered to informed consent where by research participants were fully informed about the procedures and the importance of the study; confidentiality of the researcher made sure that information obtained from the respondents is kept secretly and this even guaranteed by not even allowing them to show their identity on the filled questionnaires and the researcher to avoid the issue of plagiarism during writing the study (Fouka G. & Mantzorou M. 2011).

3.9 Limitation of the Study

During the study, a researcher faced various several problems such as:

Some information may be confidential to CRDB plc bank; therefore staff members are bound by regulations not to supply such kind data which are very confidential. The researcher convinced the organization to provide data so as to help the researcher to make a complete research.

- i. Lacks of co-operation, some of the employees were not willing to provide the relevant information. Therefore a researcher tried to convince them by explaining the importance of the study so as to get their support.
- ii. Incomplete returned some of questionnaires, questionnaire returned with not fully 100% complete in terms of number, reliability, and accuracy of the information. This means

some or few respondents provided wrong information; incomplete information and others are busy with their duties. But a researcher made the effort to request the employees of the organization to return questionnaire on time and to be more accurate when answering the questionnaire.

CHAPTER FOUR

DATA ANALYSIS AND INTERPRETATIONS

4.1 Introductions

This chapter discusses the interpretation and presentation of the findings obtained from the field. Excel software and Statistical Package of Social Science outputs where frequencies or number of respondents, percentage, tables and pie charts had been used to discuss the findings of the study. The study targeted a sample size of 83 respondents which derived from 105 targeted populations. The response rate of filled and complete questionnaires was about 95 percent and 5 percent returned with incomplete; thereby according the response rate was satisfactory to make conclusions for the study.

4.2. Demographic Information

The study aimed to establish the demographic information about the respondents. The study used this demographic information based on the study finding on the experience of the respondents according to their gender without bias and familiarity of the respondents to the demographic information that the study sought.

4.2.1 Gender of the Respondents

The gender distributions of the study included male and female as shown in table 4.1 as follows;

Table 4.1: Gender of the Respondents

Gender	Number of Respondents	Percentage (%)
Male	51	61
Female	32	39
Total	83	100

Source: Research data, (2018)

The study required to determine the gender of the respondent whereby the questionnaires requested the respondent to indicate his or her gender, the study found that majority of the respondents as shown by 51 (61%) were males and 32 (39%) of the respondents were females,

which indicate that both genders were involved in this study and the issue of gender bias did not take place during data collection.

4.2.2 Age of the Respondents

The study shown the age distribution in years between 20 and 50 years and above as elaborated in table 4.2;

Table 4.2: Age of the Respondent

Age	Number of Respondents	Percentage (%)
20-29 years	15	18
30-39 years	34	41
40-49 years	22	27
50 years and above	12	14
Total	83	100

Source: Research data, (2018)

The study requested the respondent to indicate their age category, from the findings, 15 (18%) of the respondents were aged between 20 to 29 years, 34 (41%) of the of the respondents indicated they were aged between 30 to 39 years, 22 (27%) of the respondents indicated were aged between 40 to 49 years, whereas 12 (14 %) of the respondents indicated that they were aged above 50 years and above. This study indicates that the ages of the respondents were well distributed according to the respondent's age.

4.2.3 Level of Education

The study sought to indicate the respondent's education level which categorized into different categories such certificate, diploma, degree and master's degree for the study analysis which indicated in table 4.3;

Table 4.3: Highest Level of Education

Level of Education	Number of Respondents	Percentage (%)
Certificate	5	6
Diploma	16	19
Degree	43	52
Master's Degree	19	23
Total	83	100

Source: Research data, (2018)

The research finding in table 4.3, each respondent indicates his or her highest level of education from the findings for study analysis. It was established that 5 (6%) of the respondent indicated their highest level education as certificates, (16) 19% of the respondent indicated their highest level as institution, university or college diploma, 43 (52%) of the respondents indicated their highest level of education as university degree holder, whereas 19 (23%) of the respondents indicated their highest level as second degree or master's degree holder. It determine that most of the respondents focused in this study had university degrees as their highest level of education, followed by masters degree in many financial institution or banks in Tanzania to maintain highly financial performance of banks. Researcher intended to collect this data because it helped the study to determined the respondent's levels of their education because according to the nature of the questionnaires needs a respondent who went to school by having knowledge, ability, willingness and skills to answer the questions critically and competently by knowing the positively significance of the study.

4.2.4 Length of services in the organization.

The study sought to determine the length of services in the organization which distributed between 0 up to 21years and above as narrated in table 4.4 as follows;

Table 4.4: Length of service in the organization

Years of services in the organization	Number of Respondents	Percentage (%)
0-5 years	27	33
6-10 years	21	25
11-15 years	17	21
16-20 years	12	14
21 years and above	6	7
Total	83	100

Source: Research data, (2018)

From the findings most 27 (33%) of the respondents had worked in the institution for a period of 0-5 years, 21 (25%) the respondents worked for a period of between 6-10 years, 17 (21%) had worked for a period of 11-15 years, 12 (14%) had served for CRDB Bank for a period of 16-20 years, and lastly, 6 (7%) served in the institution for 21 years and above. This shows that most of the respondents of the study had worked for many years and gained experience inside and outside the organization; therefore they were familiar of the internal auditing practices on the financial performance of the organization.

4.3 Aspect of Internal Audit Independence

The study intended to investigate the contribution of internal audit independence and financial performance of banks in Tanzania, thereby the internal audit independence comprises different aspects such as internal audit committee, free minded internal audit management, internal audit reports, internal auditor authority, preparation of the internal auditors and auditor's budget which influences positively on the performance of banks whereby the respondents agreed with very high extent in each aspects of the internal audit independence, in table 4.5 showing the study findings from the respondents which ranked by using very low, low, moderate, high and very high response or extent as follows;

Table 4.5: Aspect of Internal Audit Independence

Aspects of Internal Audit Independence	V.L	L	M	H	V.H
Independence Internal audit committee	2 (2%)	11 (13%)	14 (17%)	19 23%	37 45%
Free minded Internal audit management	0 0%	9 11%	10 12%	19 23%	45 54%
The internal audit unit having authority to access the documents as they plan	0 0%	2 2%	10 12%	22 27%	49 59%
There is independence on preparation of internal audit action plan	3 4%	5 6%	12 14%	21 25%	42 51%
Plan of action for internal audit as well as budget approved by the management are well maintained as they are submitted	1 1%	4 5%	12 14%	26 32%	40 48%

Source: Research Findings (2018)

4.3.1 Independence of Internal Audit Committee

The study required to establish the extent to which independence of internal audit committee of internal auditors influences the financial performance of Bank in Tanzania, particularly in CRDB Bank, which as shown in table 4.6.

Table 4. 6: Independence of Internal Audit Committee

Response	Number of Respondents	Percentage (%)
Very high	37	46
High	19	23
Moderate	14	16

Low	11	13
Very low	2	2
Total	83	100

Source: Research Findings (2018)

From the findings 37 (46%) of the respondents indicates very high, 19 (23%) of the respondents indicates high extent, 14 (14%) of the respondents indicated moderate, 11 (13%) of the respondents indicates low, whereas 2 (2%) of the respondents indicated to a very low according to the information collected by the researcher from the respondents. This study implies that the independence of internal audit committee affects financial performance of banks in Tanzania to a very high level.

4.3.2 Free Minded Internal Audit Management

The study sought to investigate on the extent to which free minded audit management of the internal auditors contributes to the financial performance of Bank in Tanzania where the study agree with very high extent as shown in table 4.7 that, free minded audit management influencing the financial performance of banks in Tanzania.

Table 4.7 Free Minded Internal Audit Management

Response	Number of Respondents	Percentage (%)
Very high	45	54
High	19	23
Moderate	10	12
Low	9	11
Very low	0	0
Total	83	100

Source: Research Findings (2018)

The results shows that, 45 (54%) of the respondents agreed that very high extent that free minded internal audit management influenced the financial performance of CRDB Bank in Tanzania, therefore due to that extent due to free minded of internal audit management influence more the financial performance of the financial institutions or organization in Tanzania at large. Also 19 (23%) of the respondents indicate high which shows that the free minded internal audit management influences the financial performance of banks, 10 (12%) of the respondents indicates moderate and lastly 9 (11%) of the respondents their response indicates that agree with low extent that free minded internal audit management influencing financial performance of banks in Tanzania. Therefore the study agreed with very high extent that the free minded internal audit management influenced the financial performance of CRDB Banks, which contributes to the leading bank in provision financial services in Tanzania.

4.3.3 The internal audit unit having authority to access the documents as they plan

The study required to examine the influence of the internal audit unit having authority to access the documents as they plan it contributes to the financial performance of banks in Tanzania, according to the study internal audit unit authority helping to discover the weakness, misuse of public funds, misallocation of funds and sometimes discovering the strength of financial institutions in terms of financial profitability, efficiency, return on equity, liquidity, solvency and highly repayment of loans. According to the study findings in table 4.8 showing that the internal audit unit having authority to access the documents as they plan influence the financial performance of banks in Tanzania as follows;

Table 4.8: The internal audit unit having authority to access the documents as they plan

Response	Number of Respondents	Percentage (%)
Very high	49	59
High	22	27
Moderate	10	12
Low	2	2
Very low	0	0
Total	83	100

Source: Research Findings (2018)

The study intended to determine the extent to which the internal audit unit by having authority to access the documents as they plan influences the financial performance of banks in Tanzania mainly in terms of profitability and financial efficiency aspects. From the findings of the study indicates that, 49 (59%) of the respondents indicates very high which means that the internal audit units by having authority to access the documents to any organization or financial institution like CRDB bank in Tanzania contributes largely on financial performance of banks in Tanzania, also, 22 (27%) of the respondents indicated high, 10 (12%) of the respondents indicates moderate, moreover 2 (2%) of the respondents indicated low. This indicates that the internal audit unit having authority to access the documents as they plan implies that it influences the financial performance of CRDB bank and other financial institutions in Tanzania.

4.3.4 There is independence on preparation of internal audit action plan.

The study sought to establish the independence on preparation of internal audit action plan affect the financial performance of banks in Tanzania, table 4.9 indicated that large percentage agreed with very extent that the independence on the preparation of internal audit action plan affect financial performance of CRDB bank in Tanzania positively as shown;

Table 4.9: There is independence on preparation of internal audit action plan.

Response	Number of Respondents	Percentage (%)
Very high	42	51
High	21	25
Moderate	12	14
Low	5	6
Very low	3	4
Total	83	100

Source: Research Findings (2018)

The finding of the study shown that, 42 (51%) of the respondents agreed with very high extent that the presence independence on preparation of internal audit action plan contributes to the financial performance of CRDB Bank in Tanzania, 21 (25%) of the respondents indicated a high implies that the independence on preparation of internal audit action plan influences the financial performance of banks in Tanzania which help many financial institution to avoid or managing risks which can leads to the losses, 12 (14%) of the respondents indicated moderate, 5 (6%) of the respondents indicates low extent, whereas 3 (4%) of the respondents indicated very low. Therefore the study agreed with very high extent that independence on preparation of internal audit action plan influences the financial performance of CRDB Banks in Tanzania.

4.3.5 Plan of action for internal audit as well as budget approved by the management are well maintained as they are submitted.

The study aimed to investigate the plan of action for internal audits as well as budget approved by the management are well maintained as they are submitted contributes to the financial performance of banks in Tanzania, but according to the finding in table 4.10 implies that plan of action for internal audit as well as budget approved affects financial performance of banks.

Table 4.10: Plan of action for internal audit as well as budget approved by the management are well maintained as they are submitted.

Response	Number of Respondents	Percentage (%)
Very high	40	49
High	26	31
Moderate	12	14
Low	4	5
Very low	1	1
Total	83	100

Source: Research Findings (2018)

From the study finding most of the 40 (49%) respondents agreed with very high that the plan of action for internal audit as well as budget approved by the management are well maintained as they are submitted provides a guarantee to the financial performance which help to avoid financial frauds in the organizations hence leads to the highly increase of customers trust to the financial institution such as CRDB Bank through greater financial efficiency and profitability. Also 26 (31%) of the respondents indicated high extent, 12 (14%) of the respondents indicated moderate, 4 (5%) of the respondents indicated low and lastly 1(1%) of the respondents indicated very low. Therefore the study implies that there is very high extent positive impacts of internal audit independence and financial performance of CRDB bank and other financial institutions, organization and micro financial credits institutions in Tanzania.

4.4: Effect of Internal Audit Quality Practices On Financial Performance of CRDB.

The study sought to examine the extent to which internal audit quality practices affect the financial performance of bank in Tanzania. The study described the aspects of internal audit quality practices which affect positively the financial performance of bank, where such aspects were auditor skills, auditor competence, accounting standard in reporting entities, financial statements, soundness of the internal auditors through risk management, internal audit monitoring and evaluation procedures and internal audit unit as shown in table 4.11:

Table 4.11: Aspects of Internal Audit Quality Practices

Aspects Of Internal Audit Quality Practices	V.L	L	M	H	V.H
Auditor Skills	0 0%	8 10%	12 14%	20 24%	43 52%
Auditor Competence	0 0%	3 3.5%	14 17%	22 26.5%	44 53%
The implementation of auditing standards by reporting entities	0 0%	0 0%	13 16%	24 29%	46 55%
The financial statements are reliable, transparent and useful for organization.	0 0%	1 1%	8 10%	20 24%	54 65%

The internal audit is very sound in which can help to reinforce strong organization for highly finance performance through risk management and internal control system.	0 0%	2 2%	5 6%	28 34%	48 58%
Highly monitoring procedures on financial performance	3 4%	8 10%	10 12%	22 26%	40 48%
Internal audit unit take a responsibility for environmental monitoring and availability of tools for recording daily financial transactions	0 0%	3 4%	7 8%	26 31%	47 57%

4.4.1: Auditor Skills

The study wanted to establish the level at which respondents agreed with very high extent or very low extent that auditor skills during internal audit practices affect the financial performance of banks or CRDB bank in Tanzania.

Table 4.12 Auditor Skills

Response	Number of Respondents	Percentage (%)
Very high	43	52
High	20	24
Moderate	12	14
Low	8	10
Very low	0	0
Total	83	100

Source: Research Findings (2018)

The finding of the study shown in table 13 indicated that most of the respondents 43 (52%) agreed that internal auditor skills influence the financial performance of banks in Tanzania. Which to discover up financial frauds which normally takes place in the organization. Other 20 (24%) of the respondents agreed with high extent, 12 (14%) of the respondents agreed with moderate extent, moreover 8 (10%) of the respondents agreed with low extent that auditor skills

affect the financial performance of the organization which helps to boost up the increase of the financial efficiency, profitability, return on equity and return on assets in the CRDB bank.

4.4.2 Auditor Competence

The study implies that there is a relationship between auditor competence and financial performance in CRDB Bank, the same with other financial institution in Tanzania. The results show that auditor competence brings significance impact on the financial performance of the organization particularly in profitability and financial efficiency aspect which shown in table 1.13 as follows.

Table 4.13 Auditor Competence

Response	Number of Respondents	Percentage (%)
Very high	44	53
High	22	26
Moderate	14	17
Low	3	4
Very low	0	0
Total	83	100

Source: Research Findings

From the study findings results shown that auditor competence brings significance impact on the financial performance of the organization particularly in profitability and financial efficiency aspect. The study show that 44 (53%) of the respondents agreed that auditor competence influence the financial performance in CRDB bank, 22 (26%) agreed that the auditor competence also influence the financial performance of the organization, whereas 14 (17%) of the respondent at moderate extent and 3 (4%) of the respondent at low extent also agreed that the internal audit competence contribute to the financial performance of non and commercial bank in Tanzania.

4.4.3 The implementation of auditing standards by reporting entities

The study sought to assess the implementation of auditing standards reporting entities affect the financial performance of banks in Tanzania, whereas auditing standards entities used to provide guidance on the form and content of the auditors' reports issued as a results of audit of the financial statements of the organization and help to make expectation the dependent users on the general purpose financial report (GPFR) to gain the understanding of the financial position and performance of banks such as CRDB by making decisions based on the financial information or report, which help to measure the financial performance of banks, according to the study indicate that the implementation of auditing standards by reporting entities affect the financial performance positively.

Table 4.14: The implementation of auditing standards by reporting entities

Response	Number of Respondents	Percentage (%)
Very high	46	55
High	24	29
Moderate	13	16
Low	0	0
Very low	0	0
Total	83	100

Source: Research Findings (2018)

The study sought that 46 (56%) of the respondent agreed with the statement that he implementation of auditing standards by reporting entities influences the financial performance at CRDB bank. While 24 (29%) of the respondents agree with high extent and 13(16%) of the respondents agreed with the moderate or were not sure. Generally, according to the response of 46 (56%) of the respondents agreed with very high that the implementation of auditing standards by reporting entities contributes to the financial performance in terms of profitability, financial efficiency, return on equity and return on financial assets at CRDB Bank and other financial

institutions in Tanzania whereby through the presence of internal audit practices leads to the sustainability and development of the organizations.

4.4.4: The financial statements are reliable, transparent and useful for organization.

The study sought to examine if the financial statements are reliable, transparent and useful for organization. The findings indicated that most of the financial statements are very reliable, transparent and useful to any financial institution during internal auditing process, which influences the financial performance banks in Tanzania as shown in table 4.16;

Table 4.15: The financial statements are reliable, transparent and useful for organization.

Response	Number of Respondents	Percentage (%)
Very high	54	65
High	20	24
Moderate	8	10
Low	1	1
Very low	0	0
Total	83	100

Source: Research Findings (2018)

From the table 16, found that 54 (65%) of the respondents agreed that the financial statements are reliable, transparent and useful for organization involves in financial performance at CRDB bank, because through presence of financial statements or bank statements during auditing activities which normally reliable and does transparently which influences the financial performance in the organization. Also, the study found 20 (24%) of the respondents indicated to high extent, 8 (10%) of the respondents indicated to a moderate and 1 (1%) of the respondent indicate high extent. The study indicates that internal audit practices influence to the financial performance of bank in Tanzania with very high response.

4.4.5 The internal audit is very sound in which can help to reinforce strong organization for highly financial performance through risk management and internal control system.

The study aimed to examine if the internal audit is very sound in which can help to reinforce strong organization for highly financial performance through risk management and internal control system, according to the finding results many respondents agreed with very highly extent s shown in table 4.16;

Table 4.16, the internal audit is very sound in which can help to reinforce strong organization for highly financial performance through risk management and internal control system

Response	Number of Respondents	Percentage (%)
Very high	48	58
High	28	34
Moderate	5	6
Low	2	2
Very low	0	0
Total	83	100

Source: Research Findings (2018)

From the findings, 48 (61%) of the respondents pointed that risk management, risk assessments, risk mitigation, risk monitoring, assess ethics and values within the organization, risk management provide guarantee to the management that risks are appropriately managed, risk identification and that assessment performance management effectiveness influence financial performance, the study implies that internal control system help to manage risks, to control financial defaults and financial frauds which leads highly sustainability and development at CRDB Bank. Also, the study found that 28 (34%) of the respondents agree with high response, 5 (6%) agreed with moderate and 2 (2%) of the respondents agreed with low response. Generally the study found that the internal audit is very sound in which help to reinforce strong organization for highly financial performance through risk management and internal control system which influences the financial performance at CRDB Bank.

4.4.6 Highly monitoring procedures on financial performance

The study sought to establish the effect of monitoring procedures on financial performance in relation to the length of operation of the financial institutions such as CRDB bank. The results of this analysis are as provided below in table 4.17.

Table 4.17 Highly monitoring procedures on financial performance

Response	Number of Respondents	Percentage (%)
Very high	40	48
High	22	27
Moderate	10	12
Low	8	9
Very low	3	4
Total	83	100

Source: Research Findings (2018)

From the table 18, the study found that 40 (48%) of the respondents to indicated that highly monitoring procedures affects financial performance at CRDB Bank. The study implies that through monitoring procedures influence high financial performance of the organization. 22 (27%) of the respondents, 10 (9%) of the respondents and 3 (4%) of the respondents pointed that monitoring procedures, checking for compliance with exposure limits, physical controls, supervisory activities, environmental monitoring, system of verification on financial reconciliation with bank statements, assessment of risks by mitigating and controlling risks and segregation of duties within the organization influence the financial performance of the financial institution which creates high financial development through financial efficiency, loan repayment from debtors, high returns of equity, returns of financial assets, financial liquidity and solvency contributes highly percentage on financial performance at CRDB bank in Tanzania.

4.4.7: Internal audit unit take a responsibility for environmental monitoring and availability of tools for recording daily financial transactions.

The study sought to determine the extent to which the functionality of the internal audit for environmental monitoring and availability of tools for recording daily financial transactions of the organization affects the financial performance of banks in Tanzania particularly CRDB bank. Below are the findings in table 4.4:

Table 4.18: Environmental monitoring and availability of tools for recording daily financial transactions

Response	No. of Respondents	Percentage (%)
Very high	47	57
High	26	31
Moderate	7	8
Low	3	4
Very low	0	0
Total	83	100

Source: Research Findings (2018)

The study intended to investigate the level at which the internal audit unit take a responsibility for environmental monitoring and availability of tools for recording daily financial transactions affects financial performance of banks in Tanzania. 47 (57%) respondents agreed with very high response, 26 (31%) of the respondent agreed with high response, 7 (8%) of the respondents agree with moderate extent, whereas 3 (4%) agreed with low response. The study indicates that through internal audit unit take a responsibility for environmental monitoring and availability of tools such as cash book, ledger and bank statements for recording daily financial transactions such cash deposits, cash withdraw, salary advance, loans provision, salary payments and payments collection on the behalf of other organizations influences the financial performance of CRDB bank in Tanzania. Therefore according to the study implies that internal audit quality practices influence financial performance of CRDB bank.

4.5: Effect of Internal Audit Control System on Financial Performance of CRDB.

The study requested the respondents to indicate the effect of internal audit control system on financial performance of CRDB. Most of the respondents (50%) agreed with very high extent and pointed the aspects of the internal audit control system such as availability of physical control, system of approvals and authorizations, control environments, information processing and sharing, assessment of risks, monitoring financial activities and system of verification on reconciliation which contributes to the financial performance of the organization. The results of this analysis are as provided below in table 4.19.

Table 4.19: Aspects of Internal Audit Control System Practices

Aspects of Internal Audit Control System Practices	V.L	L	M	H	V.H
Availability physical controls	0 0%	2 2%	7 8%	23 28%	51 61%
System of approvals and authorizations	0 0%	4 5%	13 16%	24 29%	49 59%
Control environments	0 0%	2 2%	9 11%	22 27%	50 60%
Information processing and sharing	1 1%	8 10%	15 18%	18 22%	41 49%
Assessment of risks	0 0%	0 0%	6 7%	22 27%	55 66%
Monitoring financial activities	1 1%	5 6%	10 12%	20 24%	47 57%
System of verification on reconciliation	0 0%	0 0%	10 12%	17 20%	56 67%

Source: Research findings (2018)

4.5.1 Availability physical controls

The researcher examined the effects of availability physical controls as functionality internal audit controls system of the organization affects the financial performance of banks in Tanzania. Below are the results of the findings, table 4.21:

Table 4.21: Availability physical controls

Response	Number of Respondents	Percentage (%)
Very high	51	61
High	23	28
Moderate	7	8
Low	2	3
Very low	0	0
Total	83	100

Source: Research findings

The study found that the availability physical control influence the financial performance of CRDB Bank in Tanzania. 51 (61%) of the respondents agreed with very high extent and 23 (28%) agreed with high extents, 7 (8%) agreed with moderate extent and 2 (3%) agreed with low response which indicated that, due to availability physical control uses to safeguard the organization assets, ensure the reliability and integrity of financial information, help to ensure the organization in compliance with local and international financial laws or acts such Bank of Tanzania act, ant-money laundering laws and Banking and Financial Institution acts (BAFIA Act 2006), promoting efficient and effective banking and financial operations and accomplishment financial goals and objectives. This study implies that due to the availability of physical controls leads to the financial performance of banks in Tanzania.

4.5.2 System of approvals and authorizations

The study sought to determine the level at which respondents agreed with the statements that relating to system of approvals and authorizations and financial performance of banks in

Tanzania, from the findings the study established that majority of the respondents strongly agreed with very high extent that system of approvals and authorizations of the organization affects financial performance of banks in Tanzania. The findings results shown in table 4.21;

Table 4.21: System of approvals and authorizations

Response	Number of Respondents	Percentage (%)
Very high	49	59
High	20	24
Moderate	11	13
Low	3	4
Very low	0	0
Total	83	100

Source: Research findings (2018)

Authorization means the basis process by which the authority completes the various stages of financial transaction which deals with recording, approving, post entry or review and reconciliation. The study found that 49 (59%) of the respondents agreed with very high extent, 20 (24%) of the respondents agreed with high response, 11 (13%) of the respondents agreed with moderate extent and 3 (4%) of the respondents agreed with low extent which indicated that, the system approval and authorizations affects financial performance of bank in Tanzania, because the system approval provides opportunities controls for altered documents and potential financial frauds within the organization and authorizations deals with different aspects such as span of control which deals with the restriction and procedures upon the action granted to a user such bank customers, employees, stakeholders, administrator, payroll coordinators and governments by using organization budget , code, and financial entity of the organization. Therefore the study found that system approval and authorizations helps for controlling all financial transactions and organization activities, whereby through proper authorization practices serve as proactive approach for preventing invalid financial transactions at CRDB Bank which influences the financial performance of the organization.

4.5.3 Control Environments

The study examined the effect of control environments and the financial performance of banks in Tanzania, the study findings indicated that internal control environments affects financial performance of banks in Tanzania, whereas large percentage (60%) of the respondents agreed with very high extent . Below are the results of this study in table 4.22

Table 4.22: Control Environments

Response	Number of Respondents	Percentage (%)
Very high	50	60
High	22	27
Moderate	9	11
Low	2	2
Very low	0	0
Total	83	100

Source: Research findings (2018)

The study sought to determine the impacts of control environment on the financial performance of banks in Tanzania. The study found that 50 (60%) of the respondents agree with very high response, 22 (27%) agree with high extent, 9 (11%) of the employees agree with moderate response and 2 (2%) agreed with low extent, which indicated that internal control environment influence the financial performance at CRDB Bank, whereby large number of employees in finance and audit departments was sufficient enough and well trained on accounting and financial management system at CRDB Bank and other commercial banks in Tanzania. Kamau (2013), from regression analysis, a unit increase in control environment could result to increase in financial performance by 0.264. The study found a positive relationship between financial performance and internal control environment among Nairobi Securities.

4.5.4: Information Processing and Sharing

The study established the effect of information processing and sharing on the financial performance of banks in Tanzania by investigating if there is good identification and proper

capturing of pertinent information and proper flow of information across and up within all the sections of the of the organization. Below are the results of this study in table 4.23;

Table 4.23: Information Processing and Sharing

Response	Number of Respondents	Percentage (%)
Very high	41	49
High	18	22
Moderate	15	18
Low	8	10
Very low	1	1
Total	83	100

Source: Research findings (2018)

From the table 4.23, discovered that information processing and sharing show that internal audit control system influence financial performance of CRDB bank in Tanzania, 41 (49%) of the respondents agreed with very high extent, 18 (22%) agree with high response and 15 (18%) agreed with moderate response whereas 8 (10%) of the respondents agree with low response that indicates the functionality of information processing and sharing on internal audit control system to the financial performance of banks in Tanzania. The findings to a very high and high extent exhibit that most of banks in Tanzania and East Africa at large which identified by the individual shown that the availability of information processing and sharing for communicating responsibilities and expectations is paramount to a good internal audit control system on the financial performance, whereby the employees understand the concept and importance of internal audit controls system including the division of responsibility. Communication helps to evaluate how well guidelines and policies of the organization are working and being implemented .The study concluded that most of banks in Tanzania especially CRDB Bank implemented their information and communication in their daily operations activities and functions through established police and procedures within the organization. This indicates that

good information and communication systems lead to high institutional revenue, low operating costs and high income at CRDB Bank.

4.5.5: Assessment of Risks

The study requested the respondents to indicate the impacts of assessment of risks on financial performance of banks in Tanzania. From study results most of respondents agreed with pointed that through risk identification, risk mitigation, risk monitoring, risk management strategies, assessing ethics and values within the organization and communication management within the organization influencing financial performance of the organization. The findings results shown in table 4.24;

Table 4.24: Assessment of Risks

Response	Number of Respondents	Percentage (%)
Very high	55	66
High	22	27
Moderate	6	7
Low	0	0
Very low	0	0
Total	83	100

Source: Research findings (2018)

From table 25, indicating that 55 (66%) of the respondents agree with very high response, 22 (27%) of the respondents agree with high response whereas 6 (7%) of the respondents agree with moderate extent which indicates that assessment of risks of internal audit control system deals with the identification of areas where the highly risks leads to loss exist within the organization. Therefore the risk assessment provides a great effort in order to control risk which can affects financial institution performance. The study found that risks assessment contributes to financial performance a CRDB Bank and other financial organizations in Tanzania, the main reasons for

risk assessment help to avoid financial frauds, controlling and monitoring all daily financial or cash transactions, controlling of buying and selling of shares and daily banking reconciliations which helps to avoid financial losses in the organization. Therefore due to the response provided by the respondents implies study assessment influence the financial performance by providing high returns on equity, liquidity assets, profitability and financial efficiency of banks in Tanzania.

According to Chepkorir (2010) established that internal audit helps financial institutions or organizations to accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes. The internal audit activity evaluates risk exposures relating to the organization's governance, operations and information systems.

4.4.6: Monitoring financial activities

The study intended to examine the impacts of monitoring on the financial performance. The study implies that due to effective monitoring and evaluation activities influence financial performance of banks in Tanzania, especially when the expenses of the organization are properly monitored and audit leads to the development of the institution. The study findings results shown in table 4.25;

Table 4.25: Monitoring financial activities

Response	Number of Respondents	Percentage (%)
Very high	47	57
High	20	24
Moderate	10	12
Low	5	6
Very low	1	1
Total	83	100

Source: Research findings (2018)

From the finding table 4.25, indicated that 47 (57%) of the respondents agree with very high response, 20 (24%) of the respondents responded with high extend, 10 (12%) of the employees agreed with moderate response, 5 (6%) of the respondents agreed with low extent, whereas 1(1%) of the employees agreed with very low extent. The study findings results indicated that there is significance relation between financial monitoring activities and financial performance of banks in Tanzania mainly at CRDB. Monitoring of internal control systems ensures quality reviews and audits. In addition, the institution had proper supervisory activities to enhance accountability and transparency and held regular management meetings to assess the financial status of the institution.

Theofanis et al., (2011), the findings of the study agreed that through effective internal control system requires regular monitoring to ensure effective and efficient system performance over time. From regression analysis, a unit increase in financial monitoring results to increase in financial performance by 0.668.

4.5.7: System of Verification on Reconciliation

The study sought to determine the impact the system of verification on reconciliation and financial performance of banks in Tanzania that found a very significant relation between internal auditing practices and financial performance of banks in Tanzania. The study findings results shown in table 4.25;

Table 4.26: System of Verification on Reconciliation

Response	Number of Respondents	Percentage (%)
Very high	56	67
High	17	20
Moderate	10	12
Low	0	0
Very low	0	0
Total	83	100

Source: Research findings (2018)

From above findings in table 4.27, the study found 56 (67%) of the respondents agreed with very high response, 17 (20%) of the respondents agreed with high extent and 10 (12%) agreed with moderate extent that indicated the system of verification on reconciliation internal audit control system influence the financial performance at CRDB bank. The reconciliation at CRDB Bank deals with comparing bank transactions and activity to supporting documentation. Also, reconciliation involves resolving any errors and discrepancies that may have been discovered. This study found that a good internal audit control system influences the financial performance of banks in Tanzania, through providing a mechanism to verify financial transactions and activities in a timely manner for the correction purpose by ensuring the accuracy and validity of financial information.

Chepkair, L (2010), the study findings discovered that banks or financial institutions had adequate and effective internal audit control activities which included regular internal audit reports, adequate segregation of duties in the finance and accounts departments and physical controls to prevent excess allocated funds within the organization.

Suggestions on the internal audit practices to improve the financial performance of CRDB

The study or respondents suggested that there are positive impacts on the internal audit practices and financial performance of banks in Tanzania. From the finding results, of the respondents suggested that the financial institutions with a higher score of internal auditing activities tend to achieve significantly higher financial performance, below are the suggestions provided by the respondents to CRDB bank which tend to highly financial performance as follows;

From the study findings 55 (66%) of the respondents emphasized that CRDB bank's management should increase effectiveness working on the weakness and recommendations which normally internal auditors wrote on the annual reports, the organization should increase more number of internal and external auditors and implementing the internal auditing procedure for more effectiveness in operation management.

The study finding, 22 (27%) of the respondents suggested that, banks should clarify and distinguish the roles which the board of directors practices in achievement of the procedure or

principles implemented by the auditing departments and the effectiveness procedures which followed by the internal auditing staffs which leads to positively effects on the organization's financial performance. Also, bank's management should working on clarifying the internal audit control systems and required to ensure the achievement of the auditing operations to the success of the effectiveness of the internal audit practices and financial performance.

The study findings results, 6(7%) of the respondents suggested that, there is a necessity for bank management to provide guidance principles either by using risks assessment-evaluation tools to identify the maximum time span which needed for the auditing based on risk, and they should encourage the internal and external auditors to work independently and clarify all the financial frauds observed, weakness, strength of the employees and bank's management which helps the organization to find out the solutions to eradicate the weakness and financial frauds with the organization to increases the financial performance. Lastly, commercial banks should introduces auditing programs that includes the factor of effectiveness of the auditing procedures as to identifying the organization's data, application system, daily baking operation activities, internal control system and technology operations for the betterment achievement of financial performance.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.0 INTRODUCTION

Chapter four focused on the analysis and interpretation of the results of the data instruments, the findings were mostly described, analyzed and presented in terms of tables and graphs which were constructed from the number of respondents involved or frequency and percentages of the response, data collected and analyzed according to the questionnaires which comprise all objectives of the study concerning internal audit practices and financial performance. In this chapter comprises the summary of findings, conclusion, limitations of study and recommendations as follows:

5.1 SUMMARY OF THE FINDINGS

I. Impacts of internal audit independence and financial performance of CRDB

The study wanted to examine the relationship between internal audit independence and financial performance of CRDB, where the study found that there is a positive relationship to a very great extent. The study further revealed that an internal auditor must be independent of both the personnel and operational activities of an organization, the internal audit department in CRDB and other financial institutions must be independent from the activities which help to control and must similarly be independent from the internal control bank operations, whereby banks should have formalized principles of internal audit practices.

Harrison (2015) assessed the influence of internal audit independence on the financial performance of small and medium enterprises: a case of the construction industry in Mombasa County, Kenya. The researcher found that or given out recommendations that there was need for construction companies in Mombasa County to accord the internal auditors the independence they required in forming their opinion on the financial statements.

The government needs to intervene so as to save the internal audit profession. This can be done through public education where, the minister for commerce and industry should coordinate with

the relevant professional bodies like to educate the management of companies in the construction industry on the importance of internal audit independence.

II. Effects of internal audit quality practices on financial performance of CRDB

The study sought to establish the effect of internal audit quality practices on financial performance of CRDB. The respondents agreed with very high response that internal audit quality practices influence the financial performance of banks in Tanzania.

Internal audit quality practices consists different aspects such as auditor skills, auditor competence, the implementation of accounting standards by reporting entities, the financial statements are reliable, transparent and useful for organization, the internal audit is very sound in which can help to reinforce strong organization for highly finance performance through risk management and internal control system, highly monitoring procedures on finance performance, internal audit unit take a responsibility for environmental monitoring and availability of tools for recording daily financial transactions through those aspects contributes to the financial performance of CRDB and other financial institution in Tanzania.

Zureigat (2010) examined the effect of financial structure among Jordanian listed firms on audit quality. Using a sample of 198 companies, his analysis of logistic regression shows a significant positive relationship between audit quality and financial structure. The study made conclusion that the internal audit quality practices influence the financial performance of financial institution and banks.

III. Effects of internal audit control system on financial performance of CRDB.

The study wanted to analyze the effects of internal audit control system on financial performance of CRDB. The study found that the respondents agree with very high response that there is positive relationship effects between internal audit control system on financial performance of CRDB. The study agreed with internal audit control system such as availability physical controls, system of approvals and authorizations, control environments, information processing

and sharing, assessment of risks, monitoring financial activities and system of verification on reconciliation, all aspects mentioned influences the financial performance of banks in Tanzania.

A study by Muraleetharan (2010) in determining the impact of internal audit control system on financial performance found a very significant relationship between internal control and financial performance ($R^2 = 0.818$). This finding is similar to that of Mawanda (2008) who sought to find the effects of internal audit control systems on financial performance in institution of higher learning in Uganda. The research findings showed a significant impact of internal control systems on financial performance.

5.2 CONCLUSION

In conclusion the study concluded that, according to the study findings the internal audit practices with the independent variables such as internal audit independence, internal auditor's control system and auditor's quality had positive impacts on financial performance of banks in Tanzania mainly when the organizations or financial institutions met the expectations sign such as profitability and highly financial efficiency.

The study discovered that there was highly changes in financial performance of CRDB in terms profitability, financial efficiency, return on asset, increase of total revenues and highly repayments of loans for the last ten (10) due to changes in internal audit practices which functioning due the presence of internal audit independence, internal auditor's control system and auditor's quality. The study also established that there was a strong positive relationship between internal audit independence and financial performance of banks in Tanzania.

The study revealed that internal auditor's quality had a positive significance impacts with financial performance of banks in Tanzania, the study found that a unit increase in internal auditor's quality would lead to increase in financial performance of banks.

Also, the study, established that there was a strong positive impacts between auditor's qualities on financial performance of banks in Tanzania, a unit increase in auditor's quality would lead to

increase in financial performance of banks (CRDB), a unit increase in auditor's qualities through auditor skills and auditor competences would lead to increase in financial performance.

Also, other studies argue that an internal audit practices correlates with better financial performance of banks. According to Beyanga (2011), an effective internal audit service in particular organization or financial institution, help reduce overhead, identify ways to improve efficiency and maximize exposure to possible losses from inadequately safeguarded organization assets all of which can have a significant effect on the financial performance of an organization. He also stated that internal audit is an invaluable tool of management for improving for financial performance. Fadzil et al (2005) also noted that internal auditors help run a company more efficiently and effectively to increase shareholders value. Finally Hermanson and Rittenberg (2005) argued that the existence of an effective internal audit function is associated with superior organizational performance.

5.3 LIMITATIONS OF THE STUDY

There are different limitations that took place during the study such as:

- i. Some few respondents were not willing to give information freely due to the sensitive nature of bank information. But the researcher tried to convince them that any information's provided by respondents are confidential and not to disclose to any person.
- ii. The study was also limited to the degree of accuracy of the data obtained from the respective respondents at CRDB. The researcher made effort to advice the respondents to provide accurate information.

5.4 RECOMMENDATIONS

The study had the following recommendations

The internal audit department should be responsible to the organization internal audit committees and internal audit management with sufficient authority to promote independence and to ensure the organization's broad audit coverage, adequate consideration of audit reports, and appropriate action on auditor's recommendations.

Internal audit department of bank should keep internal audit control system, whereby those internal audit control system through physical control and information processing creates strong supervision, experience, technology improvement and skills to the internal auditors. Internal Auditors must have sufficient proficiency and training to carry out the tasks assigned to them. The auditor's work must be carefully directed, supervised and reviewed.

There is need for the internal auditors to update their qualities through internal auditor's skills and internal auditor's competence. By applying internal auditor skills and competence to the most critical points, building personal and professional credibility and recognizing and responding to the needs, internal auditors can become a very essential auditor within the organization by speeding good governance, discipline, commitment and enhancing efficiency of internal audit within the organization.

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Appendix I: Questionnaire

I am a student pursuing Master's Degree of Business Administration in Finance and Banking at Kampala International University in Tanzania. During my studies am supposed to conduct a study research concerning Internal Audit unit to your organization so as to enable me to complete my studies.

The aim of this study is to explore "Internal Audit Practices and Finance Performance, A Case Study on Cooperative Rural Development Bank (CRDB- plc bank) head quarter in Ilala District. So please feel free to express your opinions openly. There is no right or wrong answer. All answers are equally valid. I assure you that the data collected will only be used for academic purposes and will be treated confidential.

Direction: From Section A to Section D below are the several items providing information for assessment in your organization. Tick in the appropriate box against the number that best reflects how you rate the "***Internal Audit Practices and Financial Performance of Banks in Tanzania***".

Section A: Demographic Information (Tick where Appropriate)

1. Gender of the respondent

- a) Male
- b) Female

2. Age of the respondent

- a) 20-29 years
- b) 30-39 years
- c) 40-49 years
- d) 50 years and above

3. Your highest level of education

- a) Certificate
- b) Diploma
- c) Degree
- d) Master's Degree

4. Length of service in the organization

- a) 0-5 years []
- b) 6-10 years []
- c) 11-15 years []
- d) 16-20 years []
- e) 21 years and above []

Section B: Impact of Internal Audit Independence and Financial Performance of CRDB.

1. How do you think the following aspects of internal audit independence affect financial performance of CRDB bank?

Key: V.L-Very Low, L-Low, M-Moderate, H-High, V.H-Very High

	Aspects of Internal Audit Independence	V.L	L	M	H	V.H
B1	Independence Internal audit committee					
B2	Free minded Internal audit management					
B3	The internal audit unit having authority to access the documents as they plan					
B4	There is independence on preparation of internal audit action plan					
B5	Plan of action for internal audit as well as budget approved by the management are well maintained as they are submitted					

Section C: Effect of Internal Audit Quality Practices On Financial Performance of CRDB.

2. How do you think the following aspects of internal audit quality practices affect the financial performance of CRDB Bank?

Key: V.L-Very Low, L-Low, M-Moderate, H-High, V.H- Very High

	Aspects Of Internal Audit Quality Practices	V.L	L	M	H	V.H
C1	Auditor Skills					
C2	Auditor Competence					
C3	The implementation of accounting standards by reporting entities					
C4	The financial statements are reliable, transparent and useful for organization.					
C5	The internal audit is very sound in which can help to reinforce strong organization for highly finance performance through risk management and internal control system.					
C6	Highly monitoring procedures on finance performance					
C7	Internal audit unit take a responsibility for environmental monitoring and availability of tools for recording daily financial transactions					

Section D: Effect of Internal Audit Control System on Financial Performance of CRDB.

3. How do you think aspects of internal audit control system affect the financial performance of CRDB Bank?

Key: V.L-Very Low, L-Low, M-Moderate, H-High, V.H- Very High

	Aspects of Internal Audit Control System Practices	V.L	L	M	H	V.H
E1	Availability physical controls					
E2	System of approvals and authorizations					
E3	Control environments					
E4	Information processing and sharing					
E5	Assessment of risks					
E6	Monitoring financial activities					
E7	System of verification on reconciliation					

What would you suggest to be done in area of internal audit practices to improve for their financial performance of CRDB?

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.....
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Thank You, For Your Participation.

Appendix II: Budget

ITEMS	QUANTITY	UNIT COST (TSH)	TOTAL COST(TSH)
Stationary	6 reams	15,000	90,000
Photocopying	640 pages	100	64,000
Binding	8 copies	5000	40,000
Data analysis			300,000
Lunch	20 lunches	2500	50,000
Transportation			200,000
Typing services	80 pages	1500	120,000
Internet Services			180,000
Pens	20 pens	500	10000
TOTAL			1,054,000/=