**CHALLENGES AND PROSPECTS OF INTERNAL AUDIT IN NIGERIA BANKS**

**(A STUDY OF DIAMOND BANK).**

**BY**

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**U14/MSS/ACC/030.**

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**OKOYE UNIVERSITY, UGWOMU-NIKE, ENUGU.**

**JULY, 2018**

**TITLE PAGE**

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**U14/MSS/ACC/030.**

**A PROJECT PRESENTED TO THE DEPARTMENT OF ACCOUNTING, FACULTY OF MANAGEMENT AND SOCIAL SCIENCES, GODFREY OKOYE UNIVERSITY UGUWOMU NIKE, ENUGU STATE. IN PARTIAL FULFILMENT OF THE REQUIREMENTS FOR THE AWARD OF A BACHELOR OF SCIENCE (B.S) DEGREE IN ACCOUNTING**

**SUPERVISOR: DR. UGWU JAMES.**

**JULY, 2018**

**DECLARATION**

I Chukwurah, Cynthia.W. with the registration number U14/MSS/ ACC/030 is a student in the Department of Accounting and Finance under the Faculty of Management and Social Sciences in Godfrey Okoye University. Declare that the research work written by me has not been submitted or received anywhere for the purpose of acquiring degree in Accounting and Finance.

……………………… .………….

**Chukwurah Cynthia .W. Date**

**CERTIFICATION PAGE**

This is to certify that I, Chukwurah Cynthia .W. with the registration number U14/MSS/ACC/030 of the Department of Accounting , faculty of management and social sciences, Godfrey Okoye University, Ugwuomu–Nike, Enugu state, is responsible for the work submitted in this research project and the original work submitted therein has been submitted to this University for the award of a degree.

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**Project Supervisor**

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**Dr S.N.Udeh Date**

**Head of department**

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 **Prof A. Onyema Ocheoha Date**

**Dean 0f Faculty of Mss**

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**External Examiner Date**

**DEDICATION**

 This research is dedicated to Almighty for his love mercy and protection throughout my stay in Godfrey Okoye University and for the successful completion of this research work.

Thank you lord!

**ACKNOWELDGMENTS**

I thank the Almighty God for His profound mercies, love, kindness and His abundant grace for the time, energy, resources he provided to me throughout the period of my studies and for making me what I am today.

I also wish to place on record my appreciation and gratitude to the following individuals and bodies for their contributions in making this work a success.

I am deeply indebted to my project Supervisor, Dr. James Ugwu for his detailed work on the study. His helpful criticism and comments necessitate my re-writing some chapters and restructuring of the work. Moreover, I am very grateful to him for his fatherly advice since my contact with him throughout the duration of this study.

My profound gratitude goes to my honourable Head of Department Dr.S.N Udeh. I owe much gratitude to the dean Prof A. Onyema Ocheoha and my lecturers prof T.F.I Nwanne, prof E.Nwadialor, Dr O.Inyiama, Dr I. Onwuka, Dr H. Obuekwe, Mr John Odoh, Mrs V.I.Okoro , Mrs Ewah Bassy, Mr E. Agbo, Dr M.C. Nwafor, Dr S.N. Nwankwo.

It is with deep sense of appreciation I note the contribution of my friend, colleague and who painstakingly developed, engineered and reviewed the work from inception to conclusion.

I am deeply indebted to my dear parents, Mr. and Mrs Chukwurah, for their love, support, patience, encouragement and understanding they show to me throughout the duration of the study. Deep and profound appreciation also goes to my beloved sisters and brothers Kelvin,Stephaine,Jessica. who saw me through my undergraduate programme.

I also wish to thank the Management and most especially the Internal Control staff of Diamond Bank Plc Nigeria Plc, for the assistance and support in providing needed information during the interview and the administration of the questionnaires.

 **ABSTRACT**

*The study focused on the “Challenges and Prospects of Internal Audit in Diamond Bank PLC. The main purpose of this study is to determine the challenges and prospects of internal auditors in Nigerian Banks. This work made use of two specific objective, two research question and also two hypotheses. The study conducted a survey research design .Questionnaires was self-distributed among the senior managers and auditors. The population was made up of eight (8) senior managers and internal auditors in Diamond Bank PLC. Simple percentage and T-test were used to run my data analysis ,the finding is that internal auditing as a profession faces significant challenges that makes them not to have enthusiasm towards their profession. From the study, the following recommendations were made: Management should have quality technology and materials available for internal auditors. Management should provide training ground for internal auditors.*

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**CHAPTERONE**

**INTRODUCTION**

**1.1 Background to the Study**

It is said that finance is the mainstay of an economy without finance there will be no investment and capital to start up a business and also no meaningful development could be done without finance and proper management, as a result of that diamond bank has a system of control which ensures smooth running of their bank of which internal auditing is an integral part.

Internal auditing ensures that all activities of the organization are carried out employee according to laid down procedures, the introduction of new technologies e.g. the invention of computerized internal audit system which posed challenges to the internal audit system and internal audit staff and their duties the prospect of this challenges is to update their knowledge and adjust to the current practice and also to overcome those challenges in the face of manipulation and also to perpetrate fraud is desirable, more so the requirement of new auditing standards will make staff of internal audit to update their knowledge and adjust to the current practice. Auditing is a key factor in controlling every kind of organization with financial and economic aspect serve as a sort of check and balances and administrative procedure of any organizational set up.

The need to maintain effective and efficient internal audit system, cannot be over emphasized especially in a period like this, when Nigeria government is making effort towards ensuring that wastage, privilege, misappropriation and checked or avoided to ensure that asset are being secured.

As one of the cornerstone of a career in accounting internal auditor gives strong understanding of the financial faces and processes, many may view it as a mundane and repetitive job but what they do not realize is the challenges and complexity that comes with job which are: shortage of talent, distinguishing yourself from the crowd, developing your career and market outlook.

Diamond bank plc as a private ltd liability company on March 21 1991 was incorporated on December 20 1990.Ten years later, in February 2001 it became a universal bank. In January 2005 following a highly successful private placement share offer which substantially raised the bank equity base diamond bank became a public LTD company. Since then 1990, diamond bank has challenged the market environment by introducing and setting new bench mark through international standard.

They bank also have a strong cooperate banking ethics that is helping fuel the growth across Nigeria through supporting many businesses. It serves over 150000 business including cooperate client as well as Micro Small and Medium Scale (MSME).it is also the first Nigerian bank to operate in francophone west Africa

The Carlyle group, the global alternative asset manager became a significant share holder in November 2014 following its 1.47 investment in bank. The auditor came across many challenges while carrying out their duties but with some prospect that can be able to carry out their duties effectively and efficiently.

**1.2 Statement of problem:**

Robert (2016) observed that there are several big challenges facing the internal audit as a whole some of them represent opportunities as well as obstacles to overcome. The difficulty in filling internal audit positions with talented candidates for example has led to increase in pay to many internal auditors the internal auditors perform their duties successfully also enhance good internal audit control as well as maintain some standard of good services which their client have engaged their services, there is need for utilization of effective management functions, However this internal auditors face some challenges while carrying out their duties such a Robert 2016 noted this challenges.

Proper document are not given to them on time.

They are not adequately equipped.

lack of requisite system

inability to adequately recommend and establish production method

It should be noted that a lot of studies have been conducted on the challenges of internal auditors in diamond bank as a whole but It is hoped that this study will contribute to debate and perhaps shed further light on the impact of reducing the challenges audit faces in diamond bank so as to make the working environment conducive for them while carrying out their duties and also to reduce the challenges auditors faces while carrying out their duties in an efficient and orderly manner.

**1.3 Objectives of the Study:**

The main objective of this study is to find out the challenges and prospect of internal audit in Nigerian banks. The specific objectives are to ascertain the challenges faced by internal auditors in Nigerian Banks. To ascertain the prospect of internal audit in Nigerian Banks.

**1.4 Research Question**

What are the challenges faced by internal auditors in Nigerian Banks.

What are the prospect of internal audit in Nigerian Bank comply with banks complies with bank management policies and regulation.

**1.5 Research Hypotheses:**

H0 There is no significant challenges faced by internal auditor in Nigerian Banks.

H1There is significant challenges faced by internal auditor in Nigerian Banks

H0 There is no significant prospect of internal audit in Nigerian Banks

H1There is significant prospect of internal audit in Nigerian Banks

**1.6 Significance of the Study:**

They significance of the study form the contribution it will add to knowledge on the often debated topic of evaluation challenges and prospect of internal audit. This work will be of great benefit to:

**Researchers and student**: because it reveals the relevance of auditors and for student it also contributes significantly to the internal auditing debate.

**Auditors**: it will be useful to auditors because it tells them about their challenges and how to face them and also prospect toward them carrying their duties.

**Management of Banks:** the study is to help management appreciate auditors and understand the challenges the face in carrying out their duties, so also to provide prospect for auditors so that they can help to improve audit facilities or technology and so that they will make the work enjoyable and they wouldn’t want to risk losing billions of money.

**Government**: agencies, companies, bankers researchers student who might be interested in knowing about the concept challenges and prospect of internal auditors it will cover the whole aspect of internal audit the objectives, types, reliance and prospect etc this huge amount of information will be an indispensable material to the above mentioned beneficiaries.

**Public:** It will also help the public in the sense that they will able to know the statues of the company so that they can make decision on either to invest in the company or not so as to avoid risk.

**1.7 Scope of the Study:**

It was the wish of the researcher to cover many areas of the banking sector but for the purpose of this study the researcher is only restricted to the role of auditors in detection, prevention and control of fraud in banking sector with the case study of diamond bank plc.

**1.8 Limitations of the Study:**

The researcher encountered a lot of hindrances and problems while carrying out this work. The major limitation was pressure of time in terms of academic work and demand of the research. The researcher was combining academic work with activities relating the research. Finance to source relevant materials was also a major hindrance. However these problems did not affect the quality of the research

**1.9 Definition of Terms:**

**Auditor**: An auditor is a person usually professional, appointed by banks to audit its financial statement and therefore make an opinion on the truth and fairness of the financial statement Auditor in this study refers to the internal auditors

**Bank**: A organization or place that provide financial services Bank in this work refers to as diamond bank

**Financial Statement:** This is a form of annual report and accounts that includes a statement of comprehensive income and loss, statement of financial position and also other statement including directors report and cash flow statement, finance statement in this work refers bank financial statement.

**CHAPTERTWO**

**REVIEW OF RELATED LITERATURE**

**2.0 Introduction**

Review of related literature is approached thus: conceptual framework, theoretical framework, empirical review /research gap

**2.1 Concept of Audit**

Different people, at various times has given different definition of auditing, here are some of them:

Taylor,(1982) stated that auditing is an investigation done by an auditor into the evidence from the final revenue accounts and balance sheet or other statements of the organization of which have been prepared in order to ascertain that they present a true and fair view of the summarized transactions for the period under review and of financial state of the organization at the end date so enabling the auditor to report thereon.

Nwabueze (2000), defines auditing as an evidence from which final revenue account and balance sheet have been prepared in order to ascertain that they present a true and fair view of the summarized transactions of the period under review and of the financial state of the organization at the end of the year, thus enabling the auditing to report thereon. It is an investigation into the books of account and the documents and vouchers from which the books have been written up, with the object of enabling the auditors to make a report on the balance sheet or the other statements prepared from the books to the person to whom he has been appointed to report.

Santocic (1974) stated that auditing may be described as an examination and evaluation of the authenticity and therefore the reliability of a firm business documents and records: it also involves the mating inclined to ascertain that the financial statements on which the auditor is reporting in which have been prepared from these records display a true and fair view of the financial result for the year result and a true and fair view of the state of affairs at the year .

Okolo, (1987 pg 14) expressed that “auditing could be a conscientious and objective examination of an inquiry into any statement of account relating to possible, as will enable the auditor to form an opinion as to whether or not the statement of account present a true and fair view of whatever it purports to represent, and to record accordingly”.

Nwabueze(1997) state that auditing is an exercise which is carried out in order to lend credence to statements prepared by directors of the company (who are not the owners) for the use by owners of business (shareholders) the creditors, the employees, the government, etc whereby the auditors express his opinion as to the true and fair nature of the transactions he examined while carrying out auditing.

Nwabueze went further to buttress that the financial state by the directors after all information and explanations exacted by the auditor in his opinion to be gantline and believable.

An auditing is an independent examination, its records and the financial statements from them, and from an opinion on the accuracy and correctness of the financial statement. The primary aim of an audit is to enable the auditor to say these accounts show a true and fair view or the course to say that they do not.

**Objectives of Internal Auditing**

Kings (2005) was of the view that the primary of objective of auditing is to produce a report by the auditor of his opinion of the true and fairness of financial statement so that any person reading them can have belief in them.

The secondary objective is to detect error a fraud,prevent errors and fraud by the deterrent and moral effect of auditing

To provide spin –off affect the auditor will be able to assist his client with accounting, system, tax, finance and other problems.

**2.1.2 Types of Auditors:**

Internal Audit; Helen (1998) they are employed by the organization of the auditor may review employee performance. In compliance with the company regulations and financial accounting Standards internal auditors allow company leaders to be informed of what is happening within the company and to address issues and challenges early.

**Government Auditors:**

**Independent auditors**:

They do not work for government or organization being audited. This auditors review the financial statements of a company, municipally agency or district to determine if the statements and reports are accurate and fair, independent auditors help prevent organization from releasing misleading information. In most cases, internal government auditors are sufficient to manage and monitor the inner working of an organization they review.

However independent auditors, who have no connection to the company being audited, help to see mind misleading data that can lead to fraud this is especially important for investors who rely on accurate financial report to make good investment decision

**2.1.3 Challenges of Internal Auditors:**

There are several big challenges faced by internal audit department and still more facing the department as a whole some of them represent opportunities as well as obstacle to overcome. The difficulty in filling audit positions talented candidates for example, has led to increase in pay for many internal auditors. The need to do better job leveraging technology has the potential to free internal audit from doing more valuable and higher level jobs so as to raise internal audit profile in an organization internal audit are increasingly playing a bigger rate at most companies there are still many hurdles to overcome which are

Developing work force strategy building trust is very difficult it takes time to build trust but can be damaged in a blink of an eye.

Delivery added value along with the mandate of becoming a trusted advisor: there are other increased stake holder expectations that internal auditor must meet at the top of the list is providing more insight on risk and helping company to be able to adopt and handle the change forever nature of risk? What a brand? What is your value preposition? Is the board coming to you and asking about risk?

Leveraging technology the final challenge explored was the need to do a better job at leveraging technology in internal audit including using data analysis, company need to hire people with technology back ground and then teach them how to be auditors.

**2.1.4 Reliance of Internal Auditing to External auditors:**

Davis (1996) Many larger organizations have an internal auditing department the personnel of department will be employee of this organization and their work will be directed by the management or the auditing committee if there is one.

However, they often have a degree of independence and may report to the board directly at least to top management. The work they do may include work also done by external auditors consequently, it is economic good for external auditors to consider whether he can reduce his own work by placing reliance on the work of an internal auditor some of the duties of internal audit are same as those of the external auditors .For example the internal auditor will perform work on the documentation and evaluation of accounting system and internal control will carry out compliance and substantive test .it makes economic sense to reduce the work of external auditors by relying on work of external auditor by relying on work done by the internal auditor

The external auditor can also utilize the work of the internal auditor by taking into account the work done by the internal auditor and by agreeing with management that internal audit will render direct assistance to external auditors.

**2.1.5 Internal Auditors in Banking Sector:**

Turley and Cooper(1991) the impact of auditing in controlling fraud and other financial irregularities cannot be over emphasized. Fraud is a wrongful or criminal deception intended to result in financial statement in an organization.

They auditor also examine on a test underlying transactions and record supporting financial statement balances and disclosure the auditor has become of great important today in Nigeria banks the reason being that the control system in the banking sector or pillar of efficient accounting system as well as achievement of organizational goals.

**2.1.6 Disadvantages of Internal Auditors in Bank**

There are several disadvantages of auditor which are:

Testing is used the auditors do not oversee the process of building the financial statement from start to finish the accounting system on which assurance provide a degree of reliance also inherent limitations

Most audit evidence is persuasive rather than conclusive

Assurance providers may sometimes not test the entire item in the every subject matter investment may be discouraged by a bad auditing

For smaller banks to hire an audit can be costly

It does not take into account the productively and the skills of employee of the business

**2.1.7 Advantages of Internal Auditors in Bank**

Access of capital market: Banking sector must satisfy audit requirement under the security exchange commission in order to register securities without audit companies will be denied access to the capital market

Lower cost of capital: Due to reduced information risk association with audited financial statement, auditors may offer lower interest rate and investors may be willing to accept lower rate of return on their investment

Deterrent to in efficiency and fraud: When employees know that internal audit is to be made the take care to make fewer errors in performing the accounting function and are less likely to misappropriate company assets.

Control and operational improvement: The internal auditor can often make suggestion to improve controls and achieve greater operation efficient to the client organization.

\*Insensitive for internal auditor: Due to Hamed Hamed research I found out that the incentivizes for internal auditors are

Using improved technology: That helps one carry analysis on time and prevent repetition of analysis on time and prevent repeating of analysis which makes work fast and interesting. Work that takes a longtime and high work load: Makes them to lose interest in the work and stress out.

**2.1.8Evaluation and Prospect of Internal Audit in Bank**

Internal auditor work between business and organization to monitor and evaluate how well risks are being managed, the business is being governed and internal process is trying as hard as possible to stay internal audit progressing from junior auditor to senior audit management. You may join an accountancy practice to begin with When you can gain a relevant qualification and then move into industry so that you can put your newly acquired skill to good use, promotion can be gained you can work your way up internally in the business or you may need more employers, particular going to big organization. More opportunities are available if you are specialized in certain area of auditing or have professional qualification. such as Charles provides a good understanding of an organization and how it works and also build some key transferable skills, this mean that it is possible for you to move into other area of business such as finance, sales have knowledge of running that area it is also possible to become an internal audit consultant and be self-employed once you have built a strong network and client based which often take many years .

**2.1.9 The Evaluation of Challenges and Prospect of Internal Auditors in Diamond Bank**

Chambers (1996) the challenges auditor’s faces while carrying out their duties in diamond banks is ambiguous which are:

Analytical abilities, business knowledge, ability to communicate with integrity, courage, conflict management skill and many others .one cannot be an auditor if they can’t handle such issues because one might easily break down prospect :internal auditors work within business and organization to monitor and evaluate how well risk are being managed, the bank is governed by the internal processed or working the work of internal auditors different from external auditor as the look at more than financial accounting risk.The legal framework of auditing is subject to periodic change as new companies are promulgated.

**2.2 Theoretical Framework**

**Agency Theory Framework**:

This research work adopted agency theory which analyses the relationship between two investors and managers. Agent (i.e. manager) undertakes to perform certain duties for the principal for the principal (i.e. Investors) and the principal undertake to reward the agent (Jensen and Meckling, 1976) according to the theory, the role of the auditor is to supervise the relationship between the manager and the owners. A gap expectation occurs when the distribution of the responsibility is not well defined. The responsibility of every part is well defined in the regulation the manager and the owners have to realize that the auditor does not have responsibility of the accounting but only see that the auditing is done properly Anderson and Emander, (2005).

It is argued that in a corporation, in which share ownership is widely spread, managerial behavior does not always maximize the returns of the shareholders Donaldson and Davis,(1991).The degree of uncertainty about whether the agent will pursue self-interest rather than comply with the requirements of the contract represents an agent risk for an investor Fiet(1995)

Given that principals will always be interested in the outcomes generated by their agents ,this theory demonstrates that accounting and auditing have an important task in providing information and this task is often associated with stewardship, in which an agent report to the principal on the companies event Ijiri, (1975)the demand for auditing is sourced in the need to have some independent verification to reduce record keeping errors, asset misappropriation and fraud within the business and business organization .However ,a survey conducted by Wahdanetai.(2005)revealed that the auditors believe that the auditors work would be used as a guide for investment ,valuation of companies and sometimes in predicting bankruptcy.

According to Hermansonet al (1993), there are four conditions in a business environment which create a demand for an independent audit they are four conditions in the business environment which create a demand for an independent audit. They are: conflict of interest, consequences, complexity and remoteness.

Fama and Jensen, (1998). The main objective of agency theory is show to how different mechanisms can align incentives between contracting parties and minimize costs associated with such problems Padilla, (2003). Agency theory specifies mechanisms which can reduce agency loss EisenHardt, (1989). The principal can limit divergences from his interest by establishing appropriate incentives for the agent and by incurring monitoring costs to limit the aberrant activities of the agent. In some situations the agent expends resources (bonding costs) to guarantee that he will not take certain actions which would harm the principal or to ensure that the principal will be compensated if he does take such actions. It is however impossible for the principal or the agent at zero cost to ensure that the agent will make optimal decisions. The principal and the agent will incur positive monitoring and bonding costs and there will also be an additional cost as a result of divergence between the agent’s decisions and those decisions which would maximize the welfare of the principal. This results in “residual loss& Jensen, (1976).Agency models originally were focusing their attention on explicit incentive mechanisms and, more particularly, the designing of incentive contracts to mitigate agency problems. These models show how principals design or should design contracts to align agent's incentives with their own to reduce agency problems Padilla, (2003). These would include incentive schemes for managers which reward them financially for maximizing shareholders interest.

The schemes typically include for instance plans where senior executives obtain shares perhaps at reduced prices thus aligning financial interest of executives with that of shareholders Meckling& Jensen, (1976). However these models have limits such that analysis had to go beyond explicit incentive mechanisms Padilla, (2003). Meckling and Jensen (1976) and Fama and Jensen (1983) addressed the issue of how the principal is able to prevent the agent from maximizing his own self-interest. The solutions proposed involved establishing a 'nexus’ of optimal contracts explicit as well as implicit between the owners and management of the company. These contracts, also known as the “internal rules of the game”, identify the rights of agents in the organization, performance criteria against which they will be evaluated and the resulting payoff functions they will tend to face. Exceeds the benefits. Fama and Jensen,(1998). The main objective of agency theory is to explain how different mechanisms can align incentives between contracting parties and minimize costs associated with such problems Padilla, (2003). Agency theory specifies mechanisms which can reduce agency loss Eisenhardt, (1989). The principal can limit divergences from his interest by establishing appropriate incentives for the agent and by incurring monitoring costs to limit the aberrant activities of the agent. In some situations the agent expends resources bonding costs to guarantee that he will not take certain actions which would harm the principal or to ensure that the principal will be compensated if he does take such actions. It is however impossible for the principal or the agent at zero cost to ensure that the agent will make optimal decisions. The principal and the agent will incur positive monitoring and bonding costs and there will also be an additional cost as a result of divergence between the agent’s decisions and those decisions which would maximize the welfare of the principal. This result in “residual loss”

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**2.3 Empirical Review:**

Several studies have been carried out by many researchers concerning the challenges of internal audit some of this studies are reviewed here:

According king Robert (2015)conducted a study on auditing practices and procedures in the banking sector using diamond bank as a case study, they study were to identify how auditors independence and the process of auditors appointment affect the performance of internal auditors in banks a study was gathered from a sample of 265 members of staff drawn from a population 781 across 15 selected branches in Nigeria the data gathered was analyzed using the Krusal Wallis test performed with the aid of SPSS. The result of the hypothesis test revealed the auditors independence has an effect on the quality of audit report, and the appointment processes also has an effect on the performance of banking sector

The study by IJIRI (1975) investigates factors that contribute to the effectiveness of internal audit the Malaysian banking sector. It also aims to determine the relationship between factors that contribute to the effectiveness of internal audit in promoting their transparency and integrity of public management. This study employs a cross sectional survey to investigate the effectiveness of internal audit. Several statistical techniques such as descriptive statistics, correlation and regression analysis were used to analyze the data from survey. they result of the study show that there is a significant positive relationships among the factors analyzed in this study such as auditors competency, auditors independence and objectivity and management support to the effectiveness of internal controls.

According to Fiet (1995) examine the effectiveness of auditing to comply the requirement of the contract represent an agent risk for an investor of a banking sector in Bayelsa State in Nigeria. Primary data was collected using a well-structured and tested questionnaire from 246 respondents in the 8 local government of Bayelsa state. The respondents were stratified to create subset among different departments and then random sampling technique was used to select the number of subjects from each subset to collect data. The data was analyzed using descriptive statistics and spearman ranks other correlation coefficient. The finding of the study suggest that auditing ensure proper stewardship reporting, administrative interference and inadequate qualify manpower does retard proper auditing of banking sector in Bayelsa state.

Zhang Zhou and Zhou (2006) they study concluded that firms are more likely to be identified with an internal control investigated the relationship between audit committee quality, auditor independence and the disclosure of internal control weaknesses after the enactment. The study sample comprises of firms with internal control weaknesses and, based on industry, size, performance, matched these firms to a sample control firms without internal control weaknesses. The results of the data analysis suggested that a relation exists between audit committee quality, auditor independence, and internal control weaknesses, The study concluded that firms are more likely to be identified with an internal control weaknesses, The study concluded that firms are more likely to be identified with an internal control weaknesses, if their auditors are more independent. In addition, firms with recent auditor changes are more likely to have internal control weaknesses.

**2.4 Summary of Literature Review:**

A summary of empirical review shows that the challenges of internal auditors faces in carrying out their duties, that this challenges affect internal auditors duties and needs qualified personal and good support so that the effectiveness of internal audit can improve audit work and the quality of audit activities.

**CHAPTER THREE**

**RESEARCH METHOD/METHODOLOGY**

This chapter provides a discussion of the research methodology that was used in this study. it talks about the research design especially with respect to the choice of the design .it also talks about the population of the study. Sample and sampling techniques, data collection methods as well as data analysis and data presentation methods employed in the study.

**3.1 Research Design**

Research design specifies the methods and procedures for conducting a particular study. Thus, the research design adopted in this research is survey design which includes the use of questionnaires to collect views of workers in diamond bank and internal auditors in the company.

Kimani (2006) notes that the research collects data from members of a population and helps the researcher get the surveyed existing phenomena by asking individuals about their perceptions, attitudes, behaviour and values.

**3.2 Area of the study**

This study was carried out by Diamond Bank in okpara avenue in enugu state, Nigeria.

**3.3 Source of Data**

The data used for this study were obtained from Primary sources source as follows;

**Primary Sources ;**This is an original way of gathering information. We used questionnaire and oral interview

**3.3 Population of the study;**

According to Cooper and Schinder (2000), a population is the total collection of elements about which we wish to make interferences. This study focus on the banking sector the challenges and prospect of internal auditors (diamond bank).With regards to this study the estimated population could however be 8 and it covers senior staff and auditors of the bank since the population of the study is 8 all will be used.

**3.4 Instrument for Data Collection;**

The research instrument that was used by the researcher in collecting useful information on this topic is questionnaire.

 In this study, the questionnaire used by the researcher was highly structured and it contains close ended questions close to elicit relevant reaction from their respondents.

It was also carefully designed to accommodate two sections. The first section is personnel data which will generate proper data regarding to the respondents characteristics like; sex, age, educational level while the other deals on relevant aspects of the topic under study. The first section contains a total of six (12) questions.

**3.5 Method of Data Collection**

The questionnaire was distributed to the senior staff and internal auditor of Diamond Bank. The copies of the questionnaire were collected back at the same day, after which the senior staff and internal auditor of Diamond bank have answered the questions given to them by the researcher.

**3.6 Validation of the Instrument**

Cooper and Schindler (2000) and note that pretesting helps not only to discover the research team and discovering the respondents reactions to the questions.The research used face and content method of validation to ensure validity of the research questionnaires the set of drafted question was sent to the research supervisor, who ensured that the questions were clearly appropriate and covered the research objective.

**3.7 Reliability of Instrument**

This research project adopted the test-retest method which is a measure of reliability obtained by administering the same test twice at 2 week interval to 5responssdents each week. Respondent from the first and second administration were correlated in other to evaluate the test for stability over time and correlation coefficient 0.87% was obtained. This ensured internal consistency of the questionnaire and affirmed the responses from the selected sample.

**3.8 Method of Data Presentation and Analysis**

In treating and analyzing of data collected extensive use of table and percentage was paramount. The data collected were presented in table and analyzed with percentage. The hypotheses was tested by using t test as shown below;

T-test = d

 √52/n

-d = the total number of population divide by the number of the response

S2= total significance

n = the total number of the population

**CHAPTER FOUR**

**DATA PRESENTATION AND ANALYSIS**

This chapter presents the data analysis, presentation and discussions as per the objectives of the study.

|  |
| --- |
| **4.1 Data presentation****Table 1; Analyzing gender of respondents** |
|  | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | Male | 6 | 75.0 | 75.0 | 75.0 |
| Female | 2 | 25.0 | 25.0 | 100.0 |
| Total | 8 | 100.0 | 100.0 |  |

The respondents cut across male and female gender majority were male 6 respondents representing 75.0% and female 2 respondents representing 25.0%

|  |
| --- |
| **Table4. 2 Analyzing Qualification of respondents** |
|  | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | Bachelor | 4 | 50.0 | 50.0 | 50.0 |
| Master | 4 | 50.0 | 50.0 | 100.0 |
| Total | 8 | 100.0 | 100.0 |  |

Table 4.2 shows theeducational levels of respondent 4 representing 50. 0% holds bachelor, while another 4 representing 50.0 %holds bachelor.

|  |
| --- |
| **Table 4.3Analyzing work experience of respondents** |
|  | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | less than 10 | 5 | 62.5 | 62.5 | 62.5 |
| 11-20 | 3 | 37.5 | 37.5 | 100.0 |
| Total | 8 | 100.0 | 100.0 |  |

Table 4.3 shows the working experience of the respondent it shows that s respondent chose less than 10 as their working experience representing 62.5%wile 3 respondent chose11

**Research question 1**

**To what extent do the challenges and problem of internal audit affect banks?**

**To answer this question we used questionnaire items 1, 2,3,4,5, and 6**

|  |
| --- |
| **Table 4.4 Analyzing Internal auditors take requisite training for carrying out their duties** |
|  | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | Strongly agree | 4 | 50.0 | 50.0 | 50.0 |
| Agree | 2 | 25.0 | 25.0 | 75.0 |
| Strongly disagree | 1 | 12.5 | 12.5 | 87.5 |
| Disagree | 1 | 12.5 | 12.5 | 100.0 |
| Total | 8 | 100.0 | 100.0 |  |

Table 4.4 shows that 4 respondents strongly agree that internal auditors take requisite training required for carrying out their duties and 2 respondents representing also agree that internal auditors take requisite training required for carrying out their duties while 1 respondents representing 12.5% strongly disagreed and also 1 respondent representing 12.5% disagreed that internal auditors don’t take requisite training required for carrying out their duties.

**Table 4.5: Analyzing that internal auditors have adequate technology and material in carrying out their duties.**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | Strongly agree | 4 | 50.0 | 50.0 | 50.0 |
| Agree | 2 | 25.0 | 25.0 | 75.0 |
| Strongly disagree | 1 | 12.5 | 12.5 | 87.5 |
| Disagree | 1 | 12.5 | 12.5 | 100.0 |
| Total | 8 | 100.0 | 100.0 |  |

Table 4.5 shows that 4 respondent strongly agree that internal auditors have adequate technology and materials in carrying out their duties and 2 respondent representing agree that internal auditors have adequate technology and materials in carrying their duties while 1 respondent representing 12.5% strongly disagreed and also 1 respondent representing 12.5% disagreed that internal auditors have adequate technology and material in carrying out their duties.

|  |
| --- |
| **Table 4.6 Internal auditors have restricted access to the necessary document needed for carrying out their duties** |
|  | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | Strongly agree | 1 | 12.5 | 12.5 | 12.5 |
| Agree | 1 | 12.5 | 12.5 | 25.0 |
| Strongly disagree | 4 | 50.0 | 50.0 | 75.0 |
| Disagree | 2 | 25.0 | 25.0 | 100.0 |
| Total | 8 | 100.0 | 100.0 |  |

Table 4.6 shows that 1 respondent strongly agree that internal auditors have restricted access to the necessary document needed for carrying out their duties and 1 respondent representing agreed that internal auditors have restricted access to the necessary document needed for carrying out their duties.

|  |
| --- |
| **Table4.7 Internal auditors are not independent** |
|  | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | Strongly agree | 1 | 12.5 | 12.5 | 12.5 |
| Agree | 4 | 50.0 | 50.0 | 62.5 |
| Strongly disagree | 1 | 12.5 | 12.5 | 75.0 |
| Disagree | 2 | 25.0 | 25.0 | 100.0 |
| Total | 8 | 100.0 | 100.0 |  |

Table 4.7 shows that 1 respondent strongly agree that internal auditors are gggnot independent and 4 respondent representing and agree that internal auditors while 1 respondent representing 12.5 strongly disagreed and also 2 respondent representing 25.0 disagreed that internal auditors are not independent.

**Research Question 2**

|  |
| --- |
| **Table4. 8 Internal auditors should report to shareholders** |
|  | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | Strongly agree | 2 | 25.0 | 25.0 | 25.0 |
| Agree | 4 | 50.0 | 50.0 | 75.0 |
| Strongly disagree | 1 | 12.5 | 12.5 | 87.5 |
| Disagree | 1 | 12.5 | 12.5 | 100.0 |
| Total | 8 | 100.0 | 100.0 |  |

Table 4.8 shows that 2 respondent strongly agree that internal auditor should report to shareholders and 4 respondent representing agreed that internal auditors should report to shareholders while 12.5% strongly disagree and also 1 respondent representing12.5 disagreed that internal auditors should report to shareholders

|  |
| --- |
| **Table 4.9 There should be quality technology and materials available for internal auditors** |
|  | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | Strongly agree | 4 | 50.0 | 50.0 | 50.0 |
| Agree | 2 | 25.0 | 25.0 | 75.0 |
| Strongly disagree | 1 | 12.5 | 12.5 | 87.5 |
| Disagree | 1 | 12.5 | 12.5 | 100.0 |
| Total | 8 | 100.0 | 100.0 |  |

Table 4.9 show that 4 respondent strongly agree that there should be quality technology and materials available for internal auditors and 2 respondent representing agreed that there should be quality technology and materials available for internal auditors while 1 respondent representing 12.5 disagreed that there should be quality technology and materials available for internal auditors .

|  |
| --- |
| **Table 4.10 Management should provide training ground for internal auditors** |
|  | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | Strongly agree | 4 | 50.0 | 50.0 | 50.0 |
| Agree | 2 | 25.0 | 25.0 | 75.0 |
| Strongly disagree | 1 | 12.5 | 12.5 | 87.5 |
| Disagree | 1 | 12.5 | 12.5 | 100.0 |
| Total | 8 | 100.0 | 100.0 |  |

Table 4.10 shows that 4 respondent strongly agreed that management should provide training ground for internal auditors and 2 respondent representing agreed that management should provide training ground for internal auditors while one respondent representing 12.5% strongly disagreed also 1 respondent representing 12.5% disagreed that management should provide training ground for internal auditors.

|  |
| --- |
| **Table 4.11 Internal auditor should have easy access to necessary document** |
|  | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | Strongly agree | 4 | 50.0 | 50.0 | 50.0 |
| Agree | 2 | 25.0 | 25.0 | 75.0 |
| Strongly disagree | 1 | 12.5 | 12.5 | 87.5 |
| Disagree | 1 | 12.5 | 12.5 | 100.0 |
| Total | 8 | 100.0 | 100.0 |  |

|  |
| --- |
| Table 4.11 that 4 respondent strongly agree that Internal auditors should have easy access to necessary document and also 2 respondent agreed with a percentage of 75% 1 strongly disagree that internal auditors should have access to necessary document 1 respondent that also disagreed that auditors should have access to the necessary document**.****Table 4.12 Internal auditors should be independent** |
|  | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | Strongly agree | 3 | 37.5 | 37.5 | 37.5 |
| Agree | 3 | 37.5 | 37.5 | 75.0 |
| Strongly disagree | 1 | 12.5 | 12.5 | 87.5 |
| Disagree | 1 | 12.5 | 12.5 | 100.0 |
| Total | 8 | 100.0 | 100.0 |  |

Table 4.12 shows that 3 respondent strongly agree that internal auditors should be independent 37.5%while 3 respondent also agree with the percentage of 37.5% also 1 strongly disagree with the percentage of 12.5% and 1 also disagreed 12.5 %

|  |
| --- |
| **Table 4.13 Internal auditors should have good relationship with management** |
|  | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | Strongly agree | 4 | 50.0 | 50.0 | 50.0 |
| Agree | 2 | 25.0 | 25.0 | 75.0 |
| Strongly disagree | 1 | 12.5 | 12.5 | 87.5 |
| Disagree | 1 | 12.5 | 12.5 | 100.0 |
| Total | 8 | 100.0 | 100.0 |  |

Table 4.13 shows that 4 respondent strongly agreed that internal auditors should have a good relationship with management 2 respondent representing agreed that the internal auditors should have a good relationship with management while 1respondent representing strongly disagreed 12.5% and also 1 respondent representing disagreed 12.5%.

Test of hypothesis stated earlier in this research were tested using t-test method. Three step were used to test the hypothesis. In step one; the hypothesis was stated in null and alternate forms. In step two ,the result were analysed while in step three the decisions were made.The decision rule involved the rejection or acceptance of the null hypothesis based on criterion of the techniques of analysis.

**Test of hypothesis one**

Step one; Restatement of hypothesis in null and alternate form.

H0 There is no significant challenges faced by internal auditors

H1 there is significant challenges faced by internal auditors

STEP TWO; Presentation and Analysis of Result

Table -coefficient of t statistics on the challenges faced by internal auditors.

|  |  |  |
| --- | --- | --- |
| Variable  | T\*- statistics | Probability  |
| Challenges faced by internal Auditors. | 1.724159 | 0.1230 |

The regression extract in table 4.4 shows that the t-statistics of the challenges internal audit face in Nigerian Banks yielded 1.724159 with a corresponding probability of 0.1230 this shows clearly that the value of t- statistics is less than the absolute value of 2.

Coefficient of t- statistics on prospect of internal audit in Nigerian Banks

|  |  |  |
| --- | --- | --- |
| Variable  | T\* statistics | Probability value |
| Prospect of internal audit in Nigerian Banks. | 0.556207 | 0.5933 |

**Step three; decision**

From the above analysis, it is clearly seen that the computed t\*-statistics value =1.724159 is less than the absolute value of 2. This compels then acceptance of the null hypothesis (H0) and the rejection of the alternative (H1). Hence there is no significant prospect faced by internal auditors in Nigerian Bank

**CHAPTER FIVE**

**SUMMAY OF FINDINGS AND RECOMMENDATIONS.**

 This chapter presents the summary, conclusion and recommendations.

**5.1 Summary of Finding**

1. From the study, one could summarize more evidently that Internal Auditing face significant challenges in Nigerian banks. And the challenges faced by this auditor are lack of requisite training, the lack adequate technology and material in carrying out their duties, they have restricted access to the necessary document, they are also not independent they don’t have balanced relationship with management, the do not add value of being a trusted advisor.
2. More so the show that there is no significant prospect faced by internal auditor in Nigerian banks because of the challenges internal auditors face which makes them lack the enthusiasm to carry out their duties efficiently and effectively

 **5.2 Conclusion:**

In the light of the finding of this study the following conclusion was made in diamond bank internal auditors face difficult challenges that makes them loose enthusiasm in carrying internal audit profession to a far level this challenges are treat to independence, lack of leverage technology, management relationship with auditors and also the are not trust worthy advisors which makes the internal auditing profession no to have a good prospect.

**5.3 Recommendation;**

Having conducted this research and analyzed the field data the researcher recommends the following point which if adhered to will take internal auditing profession to a whole new level

1. Management should provide quality technology and materials available for internal auditors.
2. Management should provide training ground for internal auditors.

**5.4 Suggestion for further research study**

On the basis of the finding in this study, the researcher suggests that further research work be done in the following areas:

1. The role of internal Auditor in Nigeria banks
2. Evaluation of internal audit prospect in banks
3. Strategy of improving internal audit control system of Banks in Nigeria.

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**APPENDIX**

Department of accounting and finance

Godfrey Okoye University

Ugwuomu Nike

Enugu

June, 2018.

Dear sir/madam

I am Chukwurah Cynthia Wisdom a final year student of the above institution in the department of accounting and finance. I am carrying out a research on the challenges and prospects of internal audit in banks (a case study of diamond bank plc).

Questionnaires have been prepared and your response to that would enable me accomplish the research project. I assume that your response shall be confidential and used for academic purpose only.

Yours’ faithfully

Chukwurah, Cynthia

 QUESTIONAIRE

SECTION ONE: GENERAL INFORMATION OF THE RESPODENT. PLEASE PUT A RIGHT MARK (√) IN AN APPROPRIATE BOX.

Sex: Female ( ) Male ( )

Marital status: Married ( ) Single ( )

Qualification: Bachelor ( ) Master ( ) PHD ( )

Age: less than 25 ( ) 26-50 ( ) more than 51 ( )

Experience: less than 10 years ( ) 11-20 ( ) more than 21 ( )

Please tick the appropriate box which match your most closely as strongly Agree (SA), Agree (A), strongly disagree (SD), and disagree (D) respectively.

Research question 1

To what extent do the challenges and problem of internal audit affect banks?

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| s/n | Items | Sa | a | sd | D |
| 1 | Internal auditors take requisite training required for carrying out their duties. |  |  |  |  |
| 2 | Internal auditors have adequate technology and material in carrying out their duties |  |  |  |  |
| 3 | Internal auditors have restricted access to the necessary document needed for carrying out their duties. |  |  |  |  |
| 4 | Internal auditors are not independent. |  |  |  |  |
| 5 | Internal auditors do not have a balanced relationship with management. |  |  |  |  |
| 6 | Internal audit deliver value to be a trusted advisor |  |  |  |  |

Question 2:

What are the prospects of internal auditors in banks?

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| S/N | ITEMS | SA | A | SD | D |
| 1 | Internal auditor should report to shareholders |  |  |  |  |
| 2 | There should be quality technology and materials available for internal auditors |  |  |  |  |
| 3 | Management should provide training ground for internal auditors |  |  |  |  |
| 4 | Internal auditor should have easy access to necessary document  |  |  |  |  |
| 5 | Internal auditors should be independent |  |  |  |  |
| 6 | Management should have good relationship with internal auditors |  |  |  |  |