

Effectiveness of Internal Audit in Private Commercial Banks of Bangladesh

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Abstract

This study intends to identify the utilization of internal audit function in Private Commercial Banks of Bangladesh, ever since this function is now an unavoidable requirement as per the Bank Company Act 1991. Outcomes of this study designed that, the corporate governance and risks management related activities of internal auditors are merely incorporated as statutory obligations and do not endow with additional value to the stakeholders. We put emphasis on that internal auditing in Private Commercial Banks of Bangladesh is still taking up the conventional approach which is mostly concerned with compliance and monitoring rather than adopting value added approach. The implication of the study is more decisive to the agency theory whereby public funds are being spent on activities which do not add value to the stakeholders. This could in turn water down the principal agent relationship, which is already a continual issue due to the corporate collapses witnessed over the last decade. The study comes as a timely contribution to practice since, Bangladesh economy is now at a growth and development stage and the Private Commercial Banks of Bangladesh are the major contributors to the development of Bangladesh economy. We put forward that it is time to change the outlook of internal audit system by Private Commercial Banks of Bangladesh

Keywords : *Internal Audit, Commercial Banks, Effectiveness.*

1.0 Brief Introduction

Under International Standards for Auditing (ISA) 610 in the International Auditing and Assurance Standards Board (IAASB) Handbook (2007) internal audit signifies about an appraisal activity acknowledged within an organization as a service to the organization. Its task comprises, amongst other things, examining internal control". Thus various definitions for auditing by different authors and professional bodies/association are presented below.

The Professional Practices Framework in the Institute of Internal Auditors (IIA) Research Foundation (2004) portrays 'Internal Auditing as 'an independent, objective assurance and consulting activity intended to add value and steps forward an entity's operations. It facilitates an organization carry out its objectives by bringing a systematic, disciplined approach to assess and improve

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the effectiveness of risk management, control, and governance processes'. The American Accounting Association (AAA) guidelines (1973) defines auditing as, "a systematic process of objectively obtaining and evaluating evidence regarding assertions about economic actions and events to ascertain the degree of correspondence between these assertions and established criteria, and communicating the results to interested parties". According to Arens et al. (2005) auditing is the measurement and gathering of evidence of information to ascertain and report on the degree of correspondence between the information and established criteria". In a nutshell from the above definitions, it can be carried out that internal audit provide highlighting to effectiveness of operations, management control, and governance ensuing in value additions for businesses.

To concentrate, these definitions necessitate that the prime role of external auditors is to present an independent opinion on the state of affairs of an organization. Whereas this was the looming thought of audit, plentiful changes could be analyzed as companies steps advance. Now a day, the auditors provide a wide range of services, such as legal compliance, tax consultancy, due diligence, forensic auditing and spreading out of internal control system for companies go together with by internal audit services, which are well thought-out the ultimate money retailing technology. The previous decade, then, observed a sequence of corporate collapses, each one building a history by itself, which produces trepidations over the role of auditors, the rationale and the effectiveness of internal control systems in the organization. The regulatory bodies are, since, functioned their means to make up certain rules that the companies are not only encompassing dogmatic internal control system but they are also adequately exposed as a part of governance compliance. As a result most listed companies have their own internal auditors as well as internal audit department.

Ward and Robertson (1980) disagreed that external auditors are expected to rely more on internal auditors report before stating an audit opinion. The reinforcement in internal audit performance and procedure while making sure the quality of service will most likely result in less time being spent by external auditors during statutory audit. This study thus appears at the factors that contribute towards the effectiveness of internal audit in Private Commercial Banks of Bangladesh for two reasons. First, today many of the Asian countries attempt to have open markets, creating investment friendly environment to develop industrialized economies and to attract more foreign investors together. The commercial banking system dominates Bangladesh's financial sector. Bangladesh Bank is the Central Bank of Bangladesh and the chief regulatory authority in the sector. The banking system is composed of four state-owned commercial banks, five specialized banks, thirty nine private commercial banks,

one land development bank and nine foreign commercial banks. (<http://www.bangladesh-bank.org/fnansys/bankfi.php>) Bangladesh being a part of South Asian countries has implementations of renovation of the economic and political systems from early 1990's which has observed a shift of the economy from socialist system to a more consumer driven system especially in bank industry. As a result, banks in Bangladesh began transforming bank operations from cultural perspective to the customer-driven perspective. Secondly, banking sector in Bangladesh has experienced a number of banking failures over time for example, The Oriental Bank, The Bangladesh Commerce Bank Ltd. Every Private Commercial Bank in Bangladesh has internal audit function since the time the regulatory requirement was pronounced. This study, therefore, propose to establish whether the Private Commercial Banks in Bangladesh have the internal audit function as a mere legal compliance, which implies additional cost without value additions or whether the internal audit function is authentically used as a value added function, which convey that the cost is complimented by equivalent benefits. This study is essential for the development of the economy of Bangladesh since the financial system of Bangladesh is indomitable by the performance of the Private Commercial Banks.

2.0 Review of Related Literature

Earlier studies have used diverse approaches to investigate the internal audit effectiveness. Some (Al Darwish, 1990; Twajiry et al., 2003) implemented International Standards for Professional Practice of Internal Auditing (ISPPIA) as a standard to consider and establish internal audit effectiveness while others (Mihret & Yismaw, 2007; Arena & Azzone, 2009; Ahmad et al., 2009) identified their own models to establish internal audit effectiveness. Furthermore, in the literature, effectiveness factors and its measurement have been used in a different way among the researchers (Arena & Azzone, 2009); and as of today, there is no compromise on the paramount framework for effectiveness.

The existing internal audit definitions by the professional bodies emerge to be stronger in three key areas. The definitions firstly the center of attention on the point of the internal audit purpose as value addition to the entity's instead of being a mere administrative function or legal compliance that maintains organizations going (Flesher & Zanzing, 2000). Secondly, it associates internal auditing to risk management, organizations control and governance process. This is imperative as it embraces the growing role of internal audit, which in present day has developed from a narrow focus on control to encompass corporate governance and risk management (Nagy & Cenker, 2002). Thirdly, internal audit task attain into account organizational trends and concentrates on a review approach within which an entity activates, dealing with effectiveness

and efficiency rather than accurateness of recording, (Karapetrovic & Willborn, 2000).

Academicians in China, disagree that the spreading out of internal audit can be traced back to the Zhou Dynasty (1066-221 B.C.). During this period, there were special representative in the government to control the responsibilities of internal auditing and external auditing (Chun, 1997). Until the early 1990s, there was inadequate research about internal audit effectiveness. Boyle (1993) observed six foremost scholarly journals of accounting for the period from 1975 to 1990, and bring into being only twenty-one articles on the subject of internal audit and none of them dealt with internal audit effectiveness. Adams (1994) verifies that the agency theory have a declaration to: a) wealthy and significant internal auditing research; b) strengthening the existence of internal audit, its nature and the approach which is adopted; and c) foresee how internal auditors will be overstated by organizational restructuring and rationalization. Mihret et al. (2010) have disagreed that, there is a constructive involvement between conformity with ISPPIA and organizational goal achievement that could provide to evaluate internal audit effectiveness. As of date, Sarens and DeBeelde (2006) explains internal audit as an obligation that is required by senior management to reimburse for the loss of control the management experiences as the result of ever-increasing complexity in an organization', but most significantly it assists management to deal with and identify risks which is a essential part of corporate governance process. Chun (1997) disputed that to encourage and ensure effectiveness in performance, with implied dependability in the management of the entity internal auditing is an integrated part of the system of accountability. This in turn is likely to convey an orderly and controlled approach to appraise the effectiveness and convenience of the plan and accomplishment of the system of risk management process and internal controls.

Effectiveness in contrary is accredited by setting the standards against which performances are imperative to and secondly by declaring that the performance and the standards are directed towards the achievement of an organization's objectives. Effectiveness is the capability of an entity to account effectively for its productivity and operation to its various external and internal constituencies (Gregory and Ramnaravan 1983). On the other hand, effectiveness as an accomplishment of goals and objectives using the factor measures offered for establishing such achievement (Ditternhofer 2001). Gregory and Ramnaravan (1983) definition also expose that external environment effectiveness on issues such as corporate social responsibility. For one to make different whether or not an internal audit is effective, he or she must identify the foremost objectives of internal auditing, be capable to delineate the goal to be achieved, be able to put in place the measures in relation to conquer specified goals and lastly be

competent to assess, as the whole, the internal auditing processes. Audit system effectiveness is a combination involving the ability of the auditor to bring out an audit free of errors, readiness to function when needed and identify suitable set of objectives. If any one of the three essentials is missing, the effectiveness of the system will be adversely affected (Karapetrovic and Willborn, 2000).

A number of academicians had experienced different theories in association with accounting, auditing and management. These theories are agency theory, contingency theory and stakeholder theory. Nevertheless, three of these theories are considered important in accounting, auditing and management. According to contingency theory, an entity must sort out specific attributes of an accounting system which is allied with certain defined conditions and shows evidence of a suitable matching (Otley, 1980). Stakeholder theory, though, intends that the corporate duties and responsibilities are not only controlled to shareholders but also widespread to stakeholders like creditors, customers, employees, environmentalists, governmental, shareholders, suppliers, professional bodies and prospective investors (Culpan & Trussel, 2005). It is opposed that each stakeholder has a right to be cared for as an end, and not completely as means to an end (Shankman, 1999). These two theories give the impression to talk about the effective state of affairs from where the firm activated (contingency) and the most important relationship between the organization and external stakeholders as the whole. However, internal auditing appears to be more appropriate in enlightening the agency problems taken place within the organization, even though internal auditing indirectly give details the relationship between internal and external environment as the result of new definition of internal auditing by IIA in 2000. Based on the well-known Enron case, Culpan & Trussel (2005) thoroughly have a discussion about the complication of business ethics as a result of agency relationship. Internal auditing can be used to diminish the agency problem for the betterment of all bank stakeholders by managing the activities of the management by the commercial banks.

The Bank Company Act 1991 made it mandatory for all Commercial Banks operating in Bangladesh to have in place, among other internal control measures, an internal audit function. The Act requires each bank to have a written audit agreement that increases the standing and authority of the internal audit function within the bank. It further advocates the internal auditors to ensure that risks are appropriately identified and managed through interaction with various governance groups. They are also required to ensure that significant financial, managerial and operating information is accurate, reliable and timely, in addition to compliance with policies, standards, procedures, and applicable laws and regulation. Their roles extend to check whether resources are acquired economically, used efficiently and that programs, plans and objectives are

achieved and quality and continuous improvement are fostered in the banks' control process (BCA, 1991).

The unanswered question, nonetheless, remains is whether the banks' policy makers are dedicated ensuring effectiveness of their internal control systems, particularly the internal audit functioning rather than having them as statutory obligation. Earlier researchers have documented on different attributes that are perceived to be relevant in measuring the effectiveness of internal audit function in different organizations and in different industries ranging from service to manufacturing, whether publicly owned or privately owned. Karapetrovic and Willborn (2000) modeled the audit systems effectiveness using three key concepts namely audit reliability, availability and suitability. According to this study, audit system effectiveness means the probability that the audit system will fulfill some set objectives within a given time frame when performing in specific conditions and scope. The audit system effectiveness is therefore the product of organization's audit system availability, reliability and suitability.

The research study of Otley (1980) has not considered explicitly the importance of organizational effectiveness in effective control systems design. Other studies (Xiangdong, 1997; Spraakman, 1997; Dittenhofer, 2001) focused on measuring internal audit effectiveness as the System's ability to plan, undertake and finally present findings in an objective way to the intended users. These studies convey that planning for internal audit, ensuring effective conduct of these audits and finally presenting the findings objectively and on timely basis will achieve internal audit effectiveness.

Mihret and Yismaw (2007) disagreed about internal audit effectiveness as the scope to which internal audit office is capable to meet its pre-set objectives. Another study measured that internal auditors' job is not done until shortcomings are corrected and remain right (Sawyer, 1995). In their study, Mihret and Yismaw (2007) also exhibited a rather diverse point of view of appraisal of internal audit effectiveness from the past studies by focusing on factors within the entity which has an impact on the effectiveness of internal audit. According to their model, the four key factors the interact into internal audit effectiveness. These are attributes of the clients, internal audit quality, management support, and organizational settings. However, Gansberghe (2005) be in opposition to that conceptual framework, improved professionalism, legislation, organization and governance framework, perception and ownership, and resources are the key factors accountable for an effective internal audit system in the public sector. Arena and Azzone (2009) states internal auditing as a value adding function to an organization as this function now incorporates a new link to internal control i.e. risk management. According to this study, internal auditors have embraced value addition approach by

transforming their functions and extending their involvement areas to governance processes risk management and control. Internal audit effectiveness is seen as a function of three key variables namely the characteristics of the internal audit team, the audit processes and activities, and the organizational links. Internal audit effectiveness will result into the effectiveness of each auditee and the company at large (Ditternhofer, 2001).

Further, where the internal audit quality is ensured, there will be appropriateness in procedures and operations of the auditee, resulting into auditees' effectiveness and the company as the whole (Ditternhofer, 2001). Also, where the internal audit is effective, it has an advantage over external audit as it helps to accumulate quickly, the information needed in solving a particular problem and facilitate solving the problems at an early stage (Xiangdong, 1997).

3.0 Scope and Limitation

In this study, the Arena and Azzone 2009 model, to measure internal audit effectiveness in Private Commercial Banks of Bangladesh, has been adopted for a couple of reasons. Firstly, as compared to the other models discussed earlier, this model is more suitable as it is most current and it also extends the traditional approach of internal auditing to include effective risk management activities. Secondly it recognizes the fact that individuals may sometimes have interests which are different from organization goals, and this causes conflicts of interests among the concerned parties. Finally, the model also recognizes agency problems arising from agency relationships in the organization.

The responses accepted from the Private Commercial Banks in Bangladesh were not stimulating. An extensive feedback could have made a discrepancy in the study outcome. In other industries the results from the survey could give a wide-ranging view point on internal audit issues which would have made it more effective. Consequently, some other factors which were used to evaluate internal audit effectiveness in this study might not be pertinent in other professional and legal frameworks or in countries where the level of progress of internal auditing is higher than Bangladesh.

4.0 Objectives

The main objective of this study is to evaluate the effectiveness of internal Audit in Private Commercial Banks of Bangladesh.

Therefore the study intends to:

1. To examine the internal audit resources and competencies;
2. To determine the internal audit activities i.e. involvement in risk

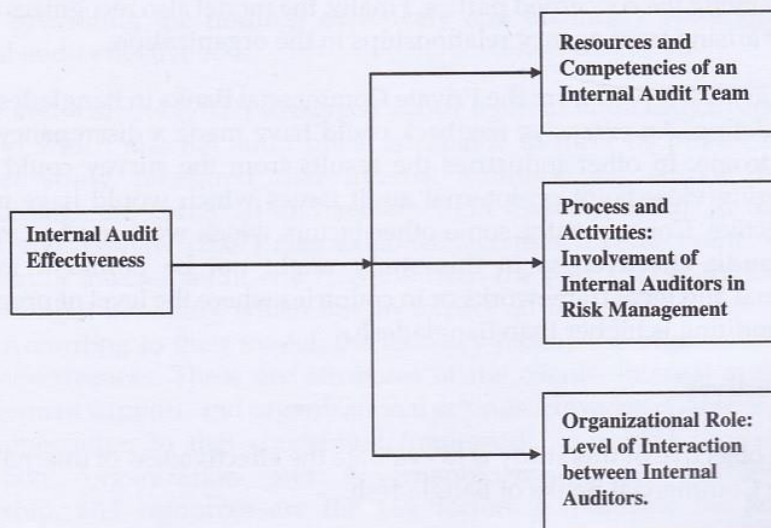
management;

3. To investigate the types of frauds in the State Commercial Banks.
4. To identify the internal audit level of interactions with audit committees.

5.0 Methodology

This research study was carried out through structured questionnaires survey administered to different respondents in Private Commercial Banks in Bangladesh. Survey is most preferred techniques because it provides more generalized outcomes of the population area unlike other methods such as case studies (Sarens & DeBeelde, 2006) and therefore more generalized conclusions can be drawn from surveys. Further it would be cost effective and saves both respondents and researchers' time as the questions are short in nature and require almost no prolonged explanations unless warranted. Using Arena and Azzone (2009) model, three independent factors i.e. resources and competencies of internal audit teams, processes and activities of internal auditors and the level of interaction between internal auditors and audit committees were identified as having an impact on the internal audit effectiveness, which is the dependent variable (Figure 1)

Figure 1: The Research Framework



Source: Arena & Azzone, G. (2009), 'Identifying Organizational Drivers of Internal Audit Effectiveness', *International Journal of Auditing*, Vol. 13, pp. 43-60.

Based on the research framework, a regression model was framed with three independent variables and one dependent variable.

$$IAE = \beta_1 + \beta_2 IAC + \beta_3 IAA + \beta_4 IAI + \varepsilon$$

Where:

IAE = Internal audit effectiveness in Private Commercial Banks in Bangladesh;

IAC= Internal audit resources and competencies;

IAA= Internal audit activities i.e. involvement in risk management;

IAI=Internal audit level of interactions with audit committees;

ε = error term; β_2 to β_4 = coefficients of independent factors and β_1 = constant term

Based on the review of literature and model the following three hypotheses were formed

H1: Competencies of members in the internal audit team has a positive relationship to internal audit effectiveness in Private Commercial Banks in Bangladesh.

H2: Internal audit activities have a positive relationship with internal audit effectiveness in Private Commercial Banks of Bangladesh.

H3: The level of interaction between internal auditors and audit committees has a positive relationship to internal audit effectiveness in private commercial banks of Bangladesh.

In Bangladesh there are 39 private commercial banks registered and operating, out of which twenty were selected for the purpose of this study. Since most of the banks have similar features and requirements, the results of the data can be generalized to the other private commercial banks which were not covered in this study. One hundred and twenty questionnaires were administered to employees using a convenience sampling technique, which is a technique used in selecting subjects on the basis of the ease of access by the researcher (Saunders et al. 2009). The employees selected included internal auditors, managers, and members of the management team and also audit committee members and/or external auditors of the selected bank. From the questionnaires administered, 81 usable responses were received, which account for about 67.5 per cent response rate. The questionnaire used in this study followed the five point likert-scale where 1 indicated strongly agree and 5 indicated strongly disagree. Respondents were also encouraged to provide open comments on the

challenges faced by internal auditors in the private commercial banks in Bangladesh.

Descriptive data results indicated that male respondents were 76.8% and female were 23.2% and they were in the age group of between 28 years and 48 years. In respect of position of the respondents, most responses were received from managers (19.8%), followed by audit managers (14.8%) and supervisor and audit committee members representing 12.3% each. The Cronbach's alpha at 0.964 was very good indicator of data reliability. A rotated factor matrix generated revealed four factors with acceptable KMO indicating that the data was valid for further testing (Refer Table 1). The initial data analysis for reliability and validity was followed by the regression analysis to test the relationship between the predictors and criterion using. (Refer Regression results in Table 2 and Table 3).

The test result in Table 2 shows the significant (p value < 0.001) relationship of predictors with the criterion. The R value of 0.908 indicates that internal audit resources and competencies, internal audit activities and internal audit level of interactions with audit committees predict internal audit effectiveness very well. More often, R^2 is used instead of R . In this study R^2 0.825 indicates 82.5% of the variance explained in the internal audit effectiveness, which can be predicted by the combination of the internal audit resources and competencies, internal audit activities and internal audit level of interaction with audit committees. The Adjusted R^2 0.818 is good and takes into consideration the number of observations (81 in this study) and the number of predictive factors. The ANOVA table is useful in explaining how well the model fits by looking at the significance test value. The value less than critical value will mean that the model fits well in explaining the relationship among factors. In this study, the significance test value from ANOVA table is less (< 0.001) than the critical value (0.05) which mean that at 5% type I error rate or at 95% confidence interval, the model fits well in explaining the relationship that exist among the factors. The Regression model which is used to explain the relationship between IA effectiveness and IA resources and competencies, IA activities and IA level of interaction with audit committees is as follows :

$$IAE = -8.430E-17 + .632 IAC + .019 IAA + .360 IAI + .42671435\epsilon \dots \text{equation}$$

The coefficient of correlation explains that IA resources and competencies has a positive association (unstandardized β 0.632, p -value less than 0.001) followed by IA interactions (unstandardized β 0.360, p -value less than 0.001). However, the IA activities were not significant indicated that it does not influence IA effectiveness. IA resources and competencies have the highest influence of 63 per cent while IA interactions influences only to extent of 36 per cent. The regression test results indicated a positive significant relationship between IA

resource and competence and IA effectiveness, and IA Interaction and IA effectiveness, thereby supporting hypothesis 1 and hypothesis 3. Hypothesis 2 was not supported (p - value > 0.05) indicating that IA activities did not have an influence on IA effectiveness.

6.0 Discussion and Findings

In Private Commercial Banks in Bangladesh the regression results analysis a positive relationship between internal audit resources and competencies and internal audit effectiveness. This necessitates that increase in the level of internal audit resources and competencies will also result in an increase in the level of internal audit effectiveness in these banks, while the decrease in the former will also result into a decrease in the latter significantly, the findings of this research are similar to the study conducted by Arena & Azzone, 2009. The study results also propose that an increase in the level of internal auditors' resources, such as human capital i.e. proportion of the number internal auditors to the total number of employees, will bring enhanced internal audit effectiveness in Private Commercial Bank in Bangladesh.

Earlier studies (Al-Twaijry, 2004 and Felix et al, 2001) recognized the relevance of the competencies of internal auditors for different purposes. Their studies invented that the statutory auditors have to decide on the extent to which they can rely on the information provided by internal auditors prior to planning their audit procedures. Therefore internal auditors' competency plays a significant role to improve the quality of external auditors' report. The findings of this study are thus consistent with the findings of earlier studies re-emphasizing the importance of internal audit resource and competencies in ensuring effectiveness of internal audit function. It was also observed that there is no significant relationship between internal audit activities and internal audit effectiveness in Private Commercial Banks of Bangladesh. This implies that the internal audit activities i.e. the level of involvement of internal auditors in risks management activities are not apparent to be very important. It could be interpreted that the internal auditing activity in Private Commercial Banks of Bangladesh is still based on the conventional approach, which is primarily concerned with compliance with regulations and monitoring, rather than using value added approach, which incorporates risks management and corporate governance (Bou-Raad, 2000). The results can also be used to highlight that internal auditors in Private Commercial banks of Bangladesh are undertaking internal audit just because it is a statutory requirement (under BCA,1991) rather than providing quality service. Finally, it was pragmatic that there is a significant relationship between level of interaction by the internal auditors with audit committee and internal audit effectiveness in Private Commercial Banks in Bangladesh. This indicates that higher interaction between the internal

auditors and members of the audit committee does contribute to internal audit effectiveness in Bangladeshi Private Commercial Banks. Arena & Azzone, (2009) and Cooper et al. (1996) had concluded that the effectiveness of internal auditing depended on the number times the chief internal auditors met with the audit committee members as well as the extent of involvement of audit committee in the internal auditors' activities. The findings of this study are, thus, consistent with that of the earlier studies.

Overall, out of the three hypotheses developed, two were supported and one was rejected implying that IA resources and competencies and IA level of interactions with audit committees, were the major influence on the internal audit effectiveness in Private Commercial Banks of Bangladesh. This signifies that the banks in Bangladesh must focus on improving human resources and their competencies to improve internal audit effectiveness. As far as the private commercial banks in Bangladesh are concerned this finding highlights the importance of investing in human capital purely for internal audit and risk management activities. This can be justified only if investing in human capital is recognized as value additions. However, the results of this study indicate that internal audit activities are viewed only as compliance of legal regulations which could result in fewer resources allocated for recruitment of qualified staff for internal audit function. Past studies like that of Siddiqui and Podder, 2002 has emphasized the importance of commercial banks in the development of any financial system or economy. Development of internal audit and viewing them as value added function will enhance the governance system contributing to the growth and development of the economy (IIA code, 2000:2004; Nagy & Cenker, 2002 and Gendron & Bedard 2010). A strong system of internal control ensures proper management of risks which are less likely to result into banks failures or collapse of economy (Richard et al. 2008). This study has re-emphasized the past research and has justified the need for value added services in Private commercial Banks of Bangladesh.

7.0 Recommendations

The regulatory bodies must formulate periodic policy efficiency review plans after issuing new policies and regulations, to ensure that the policies are properly undertaken on timely basis by suitably experienced reviewers. Secondly, apart from private commercial banks other financial institutions can also apply the findings of this study to propose and execute a tighter system covering corporate governance reporting and risk management. Thirdly, the private commercial banks of Bangladesh must focus on improving internal audit resources and competencies as well as level of interaction with audit committee, in order to get better the overall effectiveness of internal auditing in these banks. Further the open ended comments discovered that internal audit

workforce in the banks apparent internal auditing as an important function in Private commercial banks in Bangladesh. This is true in view of the fact that even the regulatory bodies such as Bangladesh Bank has made internal audit function as a mandatory requirement, but the critical area of focus ensuring effectiveness of internal auditing remains a dilemma.

Internal audit workforce in Private commercial banks suggest that among other things, improving internal auditor's independence, adequate and timely information access, adequate management support on education and on job training to expose internal auditors to new developments could help in improving the effectiveness of internal auditing in these banks. More specifically, this means there is a challenge on the bank managements' part to make sure internal audit effectiveness. Finally, internal auditors are recommended to get better their communication skills so that the presentations they make are clear and understandable to their clients. It seems that the clients view internal auditors as investigators due to the ineffective way in which the internal auditors approach their clients. Internal auditors must spend time in explaining to their clients what the internal audit is expected to accomplish and how important contributions from the client are to that process.

8.0 Concluding remarks

The results of this study significantly contributes to stronger understanding of the agency theory, which explains the relationship between the owner and the agent (Culpan & Trussel, 2005), by underscoring the degree of independence the internal auditors must have in Private commercial banks in Bangladesh. It was pragmatic that the miniature freedom of internal auditors in the private commercial banks in Bangladesh creates a threat to the owner-agency relationship. Finally, the study contributes to stakeholder theory, which states that the duties of corporations extend to all stakeholders and not only shareholders (Culpan & Trussel, 2005). The study presents insights to move ahead the internal audit function in Private commercial banks which is an essential part of corporate governance reporting since it straightly affects the interests of all stakeholders such as government agencies, employees, customers, suppliers and creditors. The foremost contribution of this study is that the researcher brings to light the need to change the attitude of the bank workforce towards the internal audit function bearing in mind the significance of strong internal audit function for spreading out the private commercial banks which are favorable for the economic development of Bangladesh. Transmitting the internal audit function as rigorous compliance could be adverse to the development of the economy as it could dilute the principal agent relationship.

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Table 1: Validity, factor loading and Eigen values

Variables	Sig	KMO	Loading	Eigen values
Internal audit effectiveness in commercial banks	< 0.00	0.815	0.704	58.68
Internal audit resources and competencies	< 0.00	0.750	0.750	60.31
Internal audit activities i.e. involvement in risk management	< 0.00	0.794	0.784	71.65
Internal audit level of inter actions with audit committees	< 0.00	0.761	0.782	73.13

Table 2: Multiple Regression Results

R	0.908
R square	0.825
Adj. R square	0.818
Std error of the estimates	0.426
Sig	.000
F value	120.78

Table 3: Multiple Regression Coefficient Results between the independent variables and dependent variable

Model	Unstandardized coefficients		Standardized coefficients		
	β	Std. Error	Beta	t.	Sig.
1(Constant)	-1.973	.664		-2.970	1.00
IA resources and Competencies	.632	..063	.632	10.060	.000
IA activities	.190	.060	.019	.317	.752
IA interactions	.360	.063	.360	5.692	.000

Dependent Variable: IA Effectiveness