

# **A STUDY OF EMPIRICAL EVIDENCE OF EFFECTIVE INTERNAL AUDIT IN CORPORATE GOVERNANCE IN PAKISTAN**

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## ***Abstract***

*The purpose of this paper is to provide insights into the effectiveness of internal audit (IA) in corporate governance (CG) especially in banking sector of Pakistan. The current roles and responsibilities of internal audit function and its impact on corporate governance are examined. In order to determine the evolving role of Internal Audit in corporate governance in banking, self-administered questionnaires were distributed among the relevant stakeholders. The effectiveness of IA in CG was determined in terms of its interaction with top management, resources and competencies of audit department and process activities in risk management. The results of the study suggest significant implication and refocus of the role of effective IA in CG in banking sector of Pakistan. Besides, the findings highlight internal audit activities (process) as having higher significance in corporate governance. The findings of this paper are useful in providing fruitful information for the regulators and standard-setters.*

## **INTRODUCTION**

The progress of internal auditing during last period was very dynamic. Its increased importance is because of its escalating consideration in parts of corporate governance, chiefly for its connections in risk management services and internal control. Internal auditors have to increase their area of working, in order to get better involved in control, risk management and process of governance. Keeping all these changes in mind, many new techniques become center of attention because of the added worth of internal audit in organization and in its governance (Cohen, Krishnamoorthy and Wright 2002).

According to Sarbanes-Oxley 2002 Act, corporate governance has gained a marvelous rise in value and media concentration. Regulations and codes have been made; programs of corporate governance, structures and out have been put into practice in most of the companies. Present states of affairs are forcing Internal Auditing Departments to echo their role, size and contribution. It is

conjectured that the increased importance of internal auditing is because of the recent economic crisis and expanded need of corporate governance.

Corporate governance standards have been improved worldwide over the last few years. Hence, it is important for Pakistani industry to follow those enhanced standards. For this purpose, since 2002, Security and exchange commission of Pakistan is determined to upgrade governance code in order to remain competitive with international standards and world financial markets. The governance code has been revised in 2012 by SECP (SECP, 2012).

Audit being a key component provides the financial position's independent review. Auditors are the agents of the principals (shareholders). This relationship works best when audit plays its role effectively. This study therefore examines effectiveness of audit from three components; IAC= Internal audit resources and competencies; IAA= Internal audit activities i.e. involvement in risk management; IAI=Internal audit level of interactions with top management as adopted from Arena & Azzone (2009).

There is not much attention paid to examine this phenomenon in Pakistan. Pakistan's banking sector is the most money making and emergent sector. So, it demands the study of internal audit usefulness in relationship to corporate governance.

## **PROBLEM STATEMENT**

“To empirically investigate the impact of effective internal audit on corporate governance in banking sector of Pakistan”

Internal audit function has changed dynamically from traditional compliance procedures to sophisticated internal control, risk management and governance systems. This is the reason internal audit is becoming center of attention internationally for its value addition in governance. However there has been little attention paid to empirically investigate this relationship in Pakistan. This paper tries to fill this gap and come out with some recommendations for better working of audit.

### **Research Objectives**

Due to immense importance of internal audit function in corporate governance, this study aims at:

1. Exploring which components (1.Internal audit activity 2.Internal audit competency and resources 3. Internal audit interaction with top management) of audit work effectively in Pakistan's banking sector and which components need further improvement.

2. Understanding the relationship of effective internal audit with corporate governance.
3. Analyzing the significance of each component with corporate governance.

### **Review of Literature**

In past few years, the significance of corporate governance has gained noteworthy community and regulatory attention. Critical part of unit's corporate governance is related to its function of internal audit. Since, because of Great Depression of 1930's, the period from 2007-2009 is thought as the worst financial crises period by many economists. Failure of many businesses, drop in purchasing power and major decline in economic activity happened because of this crises (Ibrahim, 2011).

### **Internal Auditing**

In 2009, Arena and Azzone viewed internal auditing as a function that adds value to organization as it has incorporated a new connection in internal control that is risk management. This study revealed that internal auditors have grabbed this approach of value addition by changing their functions and increasing their participation areas to control, governance and risk management. In past few years, the significance of suitable corporate governance has gained noteworthy community and regulatory attention. Critical part of unit's corporate governance is related to its function of internal audit. Since, because of Great Depression of 1930's, the period from 2007-2009 is thought as the worst financial crises period by many economists. Failure of many businesses, drop in purchaser wealth and major decline in economic activity happened because of these crises. Usually, the use of internal audit functions is to protect the assets of the firm and to guide in making accounting information for purpose of decision making (Ibrahim, 2011). The use of internal auditing has dramatically changed these days. The most complete definition presented by Sawyer (2003) in this concept was, internal auditing is an objective and systematic evaluation that is made by the internal auditors of varied controls and operations within a company that determine whether (1) the operating and financial information is precise and trustworthy. (2) Risks related to venture are recognized and minimized. (3) External rules and suitable internal policies are followed. (4) Suitable operating criterion is followed. (5) The use of resources is in economic or efficient way. (6) The objectives of an organization are successfully attained- all for assisting the members of organization in order to effectively fulfill their responsibilities related to governance.

When looking from perspective of Audit Committee, the internal auditing participates in the corporate governance by ensuring risk management and internal control and presenting information to audit committee, giving information about any misleading activities, doing audits and presenting results to committee and encouraging committee to perform sporadic reviews about its

activities and compare them with best market practices to make sure that the practices are going in a leading way.

Karagiorgos, Drogalas, Gotzamanis & Tampakoudis in 2010 alternatively said that an efficient committee always strengthens internal audit functions by providing an environment that is independent and encouraging and it reviews the efficiency of the function. Being more accurate, the committee should assess with management and head audit executive the planning, actions and configuration of audit functions. Internal audit competency has upgraded from only accounting skills management. Internal audit functions play an important role in helping board to release its governance tasks (Karagiorgos, Giovanis & Drogalas, 2011).

### **Internal Audit Effectiveness**

An ordinary definition of effectiveness is the quality to which conventional goals are achieved. The same definition can be utilized for internal audit function. Performance measuring metrics and management criterion should be made by internal audit function, in order to measure the effectiveness and efficiency in achieving its objectives (IIA, 2008). Few studies have been conducted in order to look at effectiveness of internal audit, even less have empirically investigated effectiveness of internal audit in organizations (Coram, Ferguson, & Moroney, 2008).

### **Governance**

Over last 3 decades, the issues related to governance have gained attraction by many scholars despite of the fact that they existed from a long time (Okpara, 2011). Techniques of governance are presented in wide range of methods (Joseph and Pergola, 2011). A suitable way to understand this is to see that definition that was given by Organization for Economic Cooperation and Development (OECD, 2004). "A system with the help of which nonprofit organizations is controlled and directed the senior level for obtaining performance, objectives related to financial management but it also has veracity, directness and accountability". In recent times, Roe (2004), stated that corporate governance is a relationship that flows from top of the company like board directors, senior managers and stakeholders. According to them, institutions of governance are that mechanism that assigns power between those three and it affects control and modulates the decisions that are made at top of firm. This definition indicates a scheme of objectives like control, incentives, association and monitoring (Rupsys and Staciokas, 2005). From above discussion it is obvious that corporate governance is mainly the responsibility of government in order to make sure that the organization carry on its purpose and the rights of its owners are protected (Chang, Chou & Wang 2006). In under developed nations, corporate governance is important because it helps in attaining managerial skills that encourages a weak structured firm to increase capital and attract overseas investors. The use of internal auditor in corporate governance is critical because it gives a wide view

consulting services and assurance. Governance has received great attention because of its rising acceptance that it affects economic development and ability to access low capital investment for long time (Mordelet, 2009).

Internal auditing role in operation and governance of an organization is critical. If it is executed efficiently it helps a lot in achieving organization's objectives. Companies that implement it properly can easily determine the inefficiencies and business risks, then take immediate actions in order to continue achieving improvement. In order to preserve and increase internal auditing credibility, its efficiency should be properly monitored.

### **Corporate Governance and Internal Audit of Banking Sector**

As compared to other arguments, the banking and financial system is totally based on trust. Uncertainty occurs if there is lack of trust among banking partners. Fear and negative results can be seen if there is no trust. The main reason of this lack of trust is the present financial crisis and its leads to lack of transparency in banking system. This mistrust is also caused by poor corporate governance policies that didn't present any sensible management risks, a well-judged supervision of assets and attention on long term banking objectives. These policies offered instant profits which are accompanied by large risks. Poor level of corporate governance can make some major failures with unpleasant consequences for banking sector because of the impact of deposit insurance system, corruption risks and payment system (Palfi and Muresan, 2009).

Within credit institutions, corporate governance is defined, according to BIS (Basel Committee on Banking Supervision, Enhancing Corporate Governance for Banking Organizations, 2006) as, "The way in bank relationships and businesses are directed by management and board administration, which includes the method in which they set goals, run routine business, complete their responsibilities and commitment to shareholders and owners." The bank's performance and procedures are united with operating expectations in vigorous way according to laws and rules related to depositor's interest. Some forms of supervision are very important in governance of banking institutions: supervision that is provided by board of managers and supervisors, supervision that is given by the non-executive members and a supervision that is made in a straight way to activities that are happening inside bank departments. It means the presence of self-governing audit functions, risk management and compliance (Mihailescu, 2011).

### **Auditors as Agents**

Agency model says that, due to self-interests and information asymmetries, principals do not have a reason in trusting their agents, so they will tend to put in place a mechanism to align their agent's interests with that of the principal's in order to resolve his concerns and minimize the scope for opportunistic behavior and information asymmetries. (Shapiro, 2005).

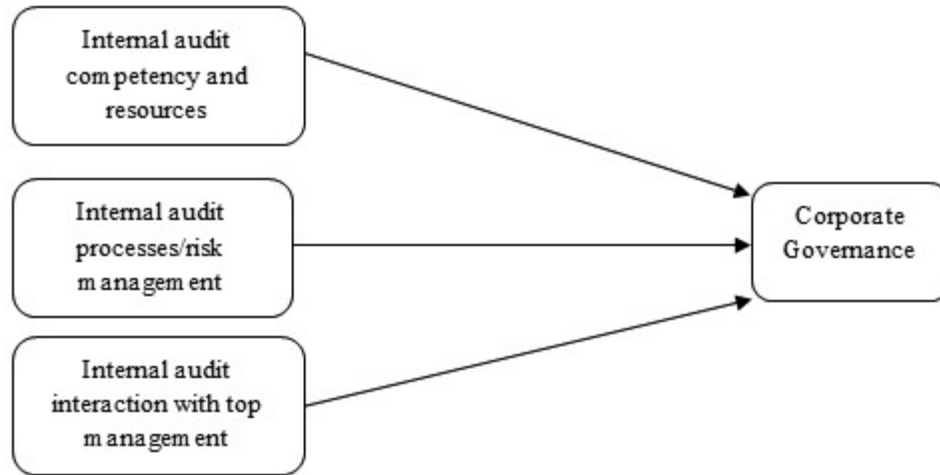
The relationship of auditors and shareholders is that of agency. This relationship is just like that of a director-shareholder which brings similar concerns of the confidence and trust. Auditors like directors, have their own motives and interests to consider. The auditor can deliver good quality audit report to shareholders as he is independent from the influence of board of directors. However, it is necessary for an auditor to develop a relationship with the BODs that will facilitate the work. Being independent from the director's board, help an auditor to ensure the shareholder a good quality report. But it should be necessary that an auditors and board of directors develop a close and good working relationship (Watts & Zimmerman, 1983). Tougher standards and controls have been put in practice to protect the auditors because of the ambiguities raised in the minds of shareholders regarding the working relationship between board of directors and the auditors and their independence of auditors while working (KFKB, 2013). In short, shareholders are really interested in their audits that check their agents. So effectiveness of audits shows a direct impact on the quality of governance.

## **THEORETICAL FRAMEWORK**

Previous studies related to internal audit and governance include Paape, Scheffe and Snoop (2003), who studied the relationship of corporate governance with that of internal audit. Goodwin (2003) explored on the relationship between internal audit and audit committee. Christopher, Sarens and Leung (2009) worked on Australian companies to examine the role of internal audit in corporate governance. Also in 2004 Gramling, Maletta, Schneider, & Church investigated the relationship between corporate governance and internal audit. Christopher and Leung (2009) worked on independence of internal audit function by examining its relationship with audit committee and management. In the same period, Sarens and Christopher (2010) explored the association of internal control, risk management and corporate governance guidelines. Finally, Ibrahim (2011) studied internal audit function in Egyptian firms and assessed audit's ability to support corporate governance. All these studies used various elements for assessing effectiveness of internal audit. Some of them include report processing time, relationship with top management, independence of audit function, professional qualification of auditors, risk-based orientation of audit, technological advancement (use of software) in carrying out audit, quality of audit reports, trainings of auditors, participation in meetings, resources of audit department including human resource, career advancement, rotation to other assignments, support of top-management etc. All these studies deploy survey technique for data collection. Arena & Azzone (2009) studied effectiveness of audit using three main components i.e. internal audit competency and resources, activity/process of internal audit for risk management and interaction level of internal audit with audit committee. For this particular study, the same three variables have been adopted to study their effect on corporate governance.

## MODEL

The model for this study was adopted from Arena & Azzone (2009) with the only difference that instead of interaction of internal audit with the audit committee, this study focuses on interaction of internal audit with the top management.



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

## HYPOTHESES

**H 1:** Internal audit competency and resources have positive relationship with corporate governance.

**H 2:** Internal audit activities have positive relationship with corporate governance.

**H 3:** Internal audit's interaction level with top management has positive relationship with corporate governance.

## METHODOLOGY

This study is about the relationship of internal audit and corporate governance, three dimensions of internal audit (Internal audit activities, internal audit interaction with top management, internal audit competency and resources) were taken as independent variables to analyze their effect on dependent variable; which in this study is corporate governance. As already mentioned in the theoretical framework, different elements of these three internal audit dimensions were measured using instrument developed by Cohen & Sayag (2010) after

necessary modifications. The dimensions of internal audit have been measured using several elements. A questionnaire survey was conducted as the response rate is comparatively high. Self-administered questionnaires were distributed in the internal audit department of 21 big banks of Pakistan. Out of total 250 questionnaires sent, 147 were received back which shows response rate of 58%. For the purpose of effectively measuring all the variables, the questionnaire (Appendix 2) was segmented into three sections. Section one has general questions about employee in order to categorize the responses and develop more meaningful results. Section two measures independent variable and includes 37 questions related to three components of internal audit. This questionnaire was adopted from Cohen & Sayag 2010 who studied the effectiveness of internal auditing in Israeli organizations with prior permission from the authors. Some amendments were made in the questionnaire in order to fully reflect the objectives of this study.

The third section consists of 13 questions related to corporate governance which is dependent variable. This section was compiled after extensive literature review and it mostly covers all aspects of corporate governance related to the requirements of this study. The scale used in all the questions is a five point Likert scale (strongly agree, agree, neutral, disagree, strongly disagree). Respondents were asked to select their choice based on this scale and mention it in the blank column given in the questionnaire for the said purpose. Once the survey was completed, the responses were fed and analyzed using SPSS version 20. Linear Regression was run to look at the effect of internal audit effectiveness on corporate governance. Some other reliability tests were conducted in order to assess correctness of data and employed model.

Linear Regression was run for the variables with 'corporate governance', as the 'Dependent Variable' while 'internal audit resource and competency', 'interaction with top management', and 'internal audit activities' as independent Variables.

The equation for linear regression is as follows:

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

The  $\beta_1$  is a constant,  $\beta_2$ ,  $\beta_3$  &  $\beta_4$  are coefficients of independent variables. IAI represents level of interactions of internal audit with top management; IAA represents Internal audit activities mainly involvement in risk management; IAC represents Internal audit competency and resources and CG represents corporate governance which is the dependent variable and  $\varepsilon$  is the error term.



## RESULTS AND ANALYSIS

### Demographic Information

Out of the 147 employees in our sample, above 50% were Assistant Manager audit, 30% were Manager I, 20% were Manager II and 10% were Senior Managers (SM). On average 20% were certified auditors while 65% hold an MBA/M.Com degree and remaining 15% were not professionally qualified and possessed degrees like M.A, MSc in different subjects.

### Reliability of Data

The value of Cronbach's Alpha was 0.9 which shows the reliability and consistency of the scale chosen for measurement.

### Descriptive Statistics

Table 1 in Appendix 1 represents summary of descriptive statistics which includes Mean, Standard Deviation, Standard Error of Mean, Variance, and Skewness for the responses of Independent and Dependent Variables. The Mean values for internal audit activities was the highest, which means that the responses were more towards the higher side of the scale (i.e. significant extent and great extent). This also applies for effectiveness as scale was designed in a way that higher value shows effectiveness. Competency and resources of audit also had a higher mean value which shows that effectiveness in this component is also high. Whereas association/interaction with top management did not show higher mean. The values for Standard Deviation and Variance also follow a similar pattern; highest for audit processes, followed by competency and resources and then by interaction with top management. The Standard Error of mean was very low for all the variables, indicating that the sample mean was well representative of the population mean. The positive value for skewness indicates that the data is concentrated towards the right side of the mean which in turns shows that most of the respondents chose higher values on effectiveness scale.

### Linear Regression

Adjusted R-Square was 0.635 which shows that 63.5% of the change in corporate governance was caused due to change in the activities, competency and resources of audit department and interaction of internal audit with top management. Also all variables have positive impact on corporate governance. Regression equation comes out to be:

$$CG = 13.29 + 0.25 IAI + 0.58 IAA + 0.038 IAC + \varepsilon$$

This shows that:

For every unit increase in IAI (internal audit interaction with top management), corporate governance will increase 25 units

For every unit increase in IAA (internal audit activities) corporate governance will increase 58 units

For every unit change increase in IAC (internal audit competency and resources), corporate governance will increase 3.8 Units.

Hence, our model is very significant in predicting corporate governance. The summary of these results are presented in Table 2 appendix 1.

### **ANOVA**

The Fischer Value of 85 (table 3) indicates that our research model is highly significant. The independent variables (IAA, IAC, IAC) significantly predict the dependent variable; corporate governance. Statistics have been presented in table 3 appendix 1.

### **T-Test**

T values for interaction level and internal audit activities/processes was more than 2 which means H2 and H3 are accepted whereas T-value for Resources and competencies was less than 2 and hence H1 is rejected.

## **DISCUSSION**

As evident from the results, internal audit's effectiveness has strong relationship with corporate governance. However, there are several aspects of internal audit which affect corporate governance significantly while others do not. In this particular case of banking sector of Pakistan, resources and competencies received very little importance from employees perspective. Remaining two components i.e. internal audit activities (processes) and the association (interaction) of internal audit with top management received much importance. Hence H1 did not receive support and was rejected whereas H2 and H3 received significant support and were accepted. It is worth mentioning that this study was conducted from employee's perspective and hence questionnaires were also distributed among auditors. Results could alter if this study had been carried out from shareholders perspective.

Detailed analysis of individual indicators showed that auditors strongly agreed that audit department meets the expectations of audit committee (81% respondents), that it is functioning as an independent unit (93% respondents), frequency of meetings with top management is enough(67% of respondents), that the audit plan completion is ensured(91% respondents), that a large number of recommendations are implemented(58% of respondents), that the department provides benefits more than the costs incurred (63 % respondents) and that technology is advance and sophisticated software are used for accurate and efficient working (86% of respondents). However, only a little agreement was

shown for high quality of audit reports (48% of respondents), staff ratio adequacy (39% of respondents) and budget sufficiency (37% of respondents).

Same was the case for dependent variable (corporate governance) which received strong agreement in case of bonuses given to employees (65% respondents), employee benefits (79% respondents), share purchase options (58% respondents) and that the incentives are linked with targets achieved (89% respondents). Conversely strong disagreement was shown that the ideas are easily communicated from bottom to top (53% respondents). Remaining indicators received only agreement. Moreover, as the overall functioning of internal audit department in Pakistani banks was effective, it can be positively said that auditors work in the best interest of shareholders and in turn supports good governance.

In light of these findings, it is obvious that employees in the audit department strongly feel that their ideas and inputs must be recognized by the management. They feel that they are not a part of the organization as long as the decision making is concerned (be it linked to internal audit). Also the component of internal audit effectiveness which is competency and resources received low score i.e. beta coefficient was 3.8. That means this component is not fully explored in Pakistani banks and there is a lot of room for improvement. Competent staff with relevant professional degrees must be a part of the internal audit department and then the rigorous training sessions must be carried out in order to polish their skills and updating their knowledge. Audit department budget was also ranked low by most of the employees (63%). Budget is an important element for better working of internal audit department. Audit plan can only be completed if there is sufficient budget. Also, auditors must be provided handsome TA/DA packages so that they remain motivated.

It was found that audit department feels that staff is not adequate in proportion to the audit plan (branch audits, desktop audits and exercises). Staff inadequacy can have a negative impact on the effectiveness of internal audit.

Overall, internal audit departments of most of the banks in Pakistan work very effectively and play their role in good corporate governance. However, there were some weak points like low staff ratio, low budget, little emphasis on rigorous trainings etc. which become hurdle in the most effective internal audit function.

Top management must take interest in internal audit department and recognize its importance in smooth functioning of banks. They can make policies which encourage more employee participation and autonomy.

## **CONCLUSION**

This paper aims to provide insights into the roles and responsibilities of the IA and its effectiveness in corporate governance in banking sector of Pakistan. This paper concluded that IA activities and level of interaction have a significantly positive impact on corporate governance in banking sector of Pakistan. Audit in Pakistan do not compromise independency and objectivity of its purpose and execution of real practices. Banking sector in Pakistan is really embracing many challenges of corporate governance due to internal audit functions. Internal audit has now emerged as a function which not only conducts traditional reviews and assessments for controlling and balancing various functions of the Banking sector but also adds value to the organization. To attain the objectivity of good governance, the firm has to emphasis on all components of corporate governance; specially, the internal audit function. The results of the study suggest significant implication and refocus of the role of effective IA in corporate governance in banking sector of Pakistan. Besides, the findings highlight process activities as having higher significance in corporate governance which needs to be tackled seriously for having the outcomes convenient to the smooth operations of the organization. The findings of this paper are useful in providing fruitful information to the deliberations of regulators and standard-setters. Furthermore this study would also provide useful insight as benchmark for internal auditors and audit committees. Audit in Pakistan is in transition phase and is embracing a more advanced level of processes with the use of sophisticated soft-wares and updated techniques.

## **CONTRIBUTIONS**

This study contributes further in the existing domain of exploring the implication of effective IA in corporate governance in banking sector of Pakistan. The findings of this paper are useful information to the deliberations of regulators and standard-setters of the corporate governance in Pakistan. Furthermore this study also provides useful insights as benchmark for internal auditors and audit committees.

It was observed that the competency and resources of internal audit in banking sector of Pakistan do not contribute significantly towards corporate governance. The existing policies and trainings must be enhanced in order to make competencies of audit team useful for governance. Moreover this paper sheds light for the improvement of internal audit in Pakistani banks in particular and for commercial banking in general.

## LIMITATIONS OF THE STUDY AND AREA FOR FURTHER RESEARCH

This study was conducted on 147 respondents. If sample size could have been increased further then the results may be more appropriate and significant. Secondly it only relates internal audit with corporate governance whereas there are several other components of good governance which needs to be investigated. Hence further research may be carried out in order to study this phenomenon using further relevant variables based on agency theory, resource competency theory etc.

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## APPENDIX 1

**TABLE 1**  
**Descriptive Statistics**

	N	Mean	SD	Variance	Skewness	
	Statistic	Statistic	Statistic	Statistic	Statistic	Std. Error
governance	147	72.9592	7.92851	62.861	.464	.200
process_activities	147	30.4762	3.91403	15.320	.668	.200
interaction	147	18.7619	2.06846	4.279	.437	.200
competency	147	21.0136	1.18776	1.411	.197	.200
Valid N (listwise)	147					

**TABLE 2**  
**Linear Regression Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.802 <sup>a</sup>	.642	.635	4.79043

a. Predictors: (Constant), process activities, competency, interaction/association

**TABLE 3**  
**Coefficients<sup>a</sup>**

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
(Constant)	13.290	8.071		1.647	.102
Interaction	.957	.313	.250	3.062	.003
Competency	.256	.338	.038	.758	.450
process activities	1.192	.165	.589	7.215	.000

a. Dependent Variable: governance

**TABLE 4**  
**Anova**

Model	Sum of Squares	Df	Mean Square	F	Sig.
1 Regression	5896.157	3	1965.386	85.644	.000 <sup>b</sup>
Residual	3281.598	143	22.948		
Total	9177.755	146			

a. Dependent Variable: governance



b. Predictors: (Constant), process\_activities, competency, interaction

**TABLE 5**  
**Reliability Statistics**

Cronbach's Alpha	No of Items
.902	4

**APPENDIX 2**

**Questionnaire**

**SECTION: 1**

- Age:
- Qualification:
- Rank:
- Experience:

**SECTION: 2**

(The questionnaire items were adopted from Cohen & Sayag (2010) after necessary modifications)

Kindly mention your choice in the third column by writing 1-5 (strongly agree to strongly disagree) according to below mentioned scale in the blank columns.

<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree

**Internal Audit Interaction with Top Management**

1	IA gets the attention of top management and focuses it on issues audited by IA.	
2	The IA department is valued by management and makes valuable contributions during meetings.	
3	Top management provides internal auditors with the support they expect to have.	
4	Management is sufficiently aware of the needs of IA (budget assigned to the department).	
5	IA is a source of valuable data and information for the decision-makers in the organization.	
6	Internal auditors have a good working relationship with internal audit head.	
7	Audit committee has good relationship with chief financial	

	officer.	
8	Audit committee has good relationships with Chief Information officer relation to technological advancements and updates.	
9	Audit department has good relationship with compliance department.	
10	Members from top management are invited frequently in quarterly/semi-annual meetings of the internal audit department.	

#### **Internal Audit Competency and Resources**

1	The professional qualifications and training of IA employees are high.	
2	Internal audit department holds frequent training secessions.	
3	The number of employees in IA is adequate given the amount of auditing work planned and needing to be done in the near future	
4	The organization invests consistently in the training and development of IA employees, who in the future will be a source for filling managerial positions in the organization.	
5	The work of IA is performed with modern technology that uses computerized data pools and specific IA software.	
6	Internal auditors show keen interest in learning new skills (software updates, desktop audits, etc.)	
7	Audit teams complete its reports in timely and effective manner.	
8	Checklists and manuals are continuously revised and updated with the support of management.	
9	Internal auditors are sent for trainings conducted by SBP (State Bank of Pakistan) ,NIBAF (National Institute of Banking and Finance) and other financial institutions.	
10	The skills learnt in training are implemented by internal audit staff while conducting audits.	

#### **Internal Audit Activity**

1	Internal auditing (IA) provides information on problems in the activity or control systems in the organization.	
2	The work and activities of IA meet the expectations of audit committee.	
3	When examining the issues that are audited, IA also covers issues related to effectiveness, performance and savings.	
4	IA is aware of and sensitive to the organization's needs and operates accordingly.	

5	The evaluation of IA reports made by individuals in managerial positions who were audited is positive.	
6	The evaluation of IA reports made by individuals in operative positions who were audited is positive.	
7	The evaluation of IA reports made by external auditors and other external authorities is positive.	
8	The evaluation of IA reports made by the auditing committee is positive.	
9	IA identifies risks and properly evaluates control systems, thereby becoming a gatekeeper.	
10	The issues to be audited are decided after identifying risks, quantifying them and determining appropriate risk levels.	
11	IA is an autonomous and independent organizational unit.	
12	A large portion of the IA department's recommendations is implemented.	
13	All auditing functions that were approved in the auditing plans are performed completely.	
14	The IA department contributes to the organization above and beyond its costs.	
15	The IA reports are professional and of high quality.	
16	Those who are audited demonstrate a high level of satisfaction with the work of the IA department.	
17	The findings of internal audits are very significant for the organization.	

**SECTION: 3**  
**CORPORATE GOVERNANCE**

1	Our bank put emphasis on stock options.	
2	Our bank offers and put emphasis on employee shares.	
3	Our bank offers bonuses.	
4	Our bank offers several attractive other benefits like car policy, pension scheme, insurance, health benefits ,etc.	
5	The above mentioned benefits/incentives are mostly linked to the achievement of the personal targets.	
6	Our bank tries to avoid downsizing and offer other options like schooling or internal transfers.	
7	Our bank believes in generous packages like paid transition period or termination pay in case of downsizing.	
8	Our bank has strong controls specially of ROA, ROI and ROE.(Return on assets, investments, Equity).	
9	Formalized links with the investors (Investor Relations; analyst conferences, etc.) are developed and maintained by our bank.	
10	Our bank maintains good informal links with the investors.	
11	The leadership style followed in our bank is participative	

12	The decisions in our bank are made after discussion and input from colleagues.	
13	Communication is effective and ideas emerging from the bottom also gets recognized and sponsored by the top management.	