

A COMPARATIVE STUDY OF INTERNAL AUDIT COMPLIANCE SYSTEM BY BANK EMPLOYEES FROM NATIONALIZED & PRIVATE BANKS: SETTING A RESEARCH AGENDA

N. Dixit

R.B.Mundada College of Arts, Commerce and Science, Pune

ABSTRACT

Can Yes Bank say no to its customers? It did say no to its customers recently. People had hopes that may be in years to come it will be another ICICI or a HDFC or an Axis Bank. This didn't happen. On the other hand, faith of millions and billions of depositors in the Indian banking system has been shaken. One grey area is that of audit compliances. Internal auditors do the audit, give the reports and these are often, just filed. The compliance is highly superficial. If that was not the case, why banks are failing? It is but obvious that the controls are being circumvented. Internal audit is one such control element that has been reduced to a mere formality. This paper tries to set out an agenda for a major research looking into the compliance of the internal audit reports by the employees with a comparison perspective between private and public sector banks. The proposed study should investigate the grey area of compliance or more aptly non-compliance with the internal audit report by banks from the nationalized and private sector.

Keywords: Banks, Internal Audit, Private banks and Public Sector banks.

Background and context

YES Bank finally said NO to its depositors in March, 2020.



Figure 1 Shutters closed by Yes Bank in March 2020

(Source: Indiascrolls.com)

Whatever maybe the reasons, fact is that one of India's promising bank has collapsed. Lot was expected from Yes Bank. People had hopes that may be in years to come it will be another ICICI or a HDFC or an Axis Bank. This didn't happen. On the other hand, faith of millions and billions of depositors in the Indian banking system has been shaken. In the light of a series

of bank collapses in recent times, this paper sets a research agenda to look into the internal audit system of banks. Internal audit is an important component of the internal control system of an organization. It is often called as a "tool". So, does this tool lost all its sharpness and become blunt? If not, how are these banks operating recklessly and failing one after another? Are the internal audit reports simply filed by the employees or are they acted upon? Has internal audit been reduced to a mere formality and are employees absolutely callous about it? These are some of the issues that need to be investigated in a research under the title "A comparative study of the perception towards internal audit of bank employees from nationalized and private banks".

Concept: Internal Audit

The Institute of Internal Auditors (2015) has defined internal audit as "Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations". The concept and its flow are quite simple to understand and have been depicted below:

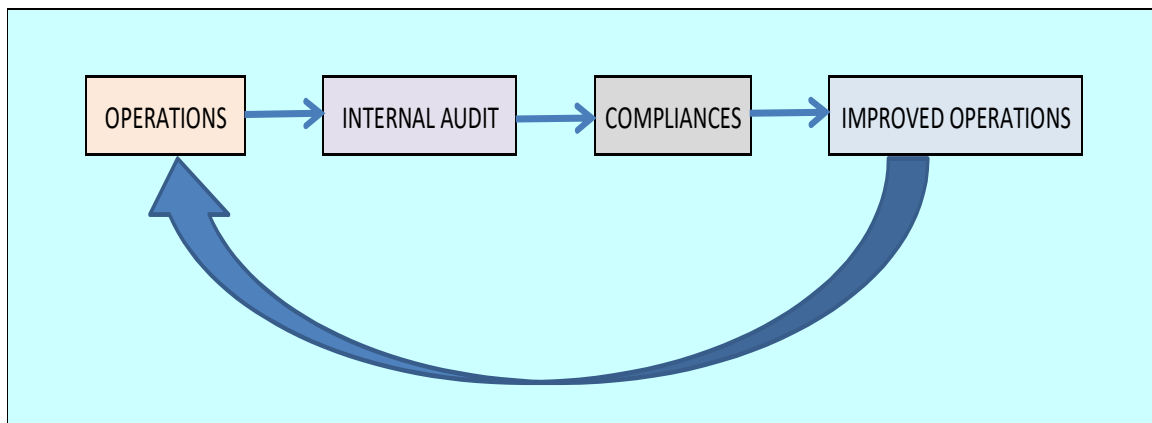


Figure 2 Process of internal audit and compliance

Grey area is that of compliances. Internal auditors do the audit, give the reports and these are often, just filed. The compliance is highly superficial. If that was not the case, why banks are failing? It is but obvious that the controls are being circumvented. Internal audit is one such control element that has been reduced to a mere formality. The proposed study should investigate the grey area of compliance or more aptly non-compliance with the internal audit report by banks from the nationalized and private sector.

Employee perception towards Internal Audit Report

What do bank employees really think of the internal audit reports? What is their perception about the seriousness of the internal audit reports? Is there any difference in the perception between employees of nationalized and private banks? These are key research questions that can be probed by this study. Employee perception towards internal audit report means the attitude of the employees towards the internal audit report. It can be positive or negative. A positive perception of employees can lead to improvements in operations and can also motivate the internal auditor to do his job more effectively. On the other hand, a negative perception of employees can lead to serious problems in operations and can also demotivate the internal auditor to do his job more effectively (Sifile O and Munyunguma I, 2014). A positive perception towards internal audit report implies that employees are willing to accept the mistakes pointed out by the internal auditor and are willing to improve. A negative perception towards internal audit report implies that

employees are not willing to accept the mistakes pointed out by the internal auditor and even if they accept the mistakes, they are not willing to improve.

Literature Review

Research on importance of internal audit

Asideu et. al (2017) have highlighted role of internal audit in fighting corruption in the public sector. Researchers have claimed that effective internal audit improves corporate governance.

Bananuka, et.al (2018) have reviewed the role of internal audit function in statutory corporations from Uganda and have concluded that the function plays an important part in ensuring accountability.

Oussli and Taktak (2018) found that that quality of internal control is significantly and positively associated with competence of internal audit function, the assurance level of internal audit quality control, follow-up process and the audit committee's involvement in reviewing the internal audit results.

There is ample research on importance of internal audit in banks :Jaimaica, Chevers et al., (2016); Turkey, Kartal et al., (2018); Sudan, Sulub et al., (2020); Yemen, Matari et al., (2016); Romania, Zinca (2016).

Research on employee perception towards internal audit

Sifile and Munyunguma (2014) found that a negative perception of employees can lead to serious problems in operations and can also demotivate the internal auditor to do his job more effectively. Cassandra et al., (2017) found that Singaporean junior and senior managers appreciate internal auditors that serve

in the business partner role. On the other hand, mid-level managers often perceived internal auditing activities negatively and in terms of “watchdog” activities.

Research Gap

There is hardly any literature on bank employee perception towards internal audit reports. On importance of internal audit, factors influencing effectiveness of internal audit, role of internal audit and other such aspects there are number of studies. But interestingly researchers have not hit the point of “compliances” of the internal audit report based on either a positive or negative perception of the employees. Internal auditors don't implement the corrections, changes or suggestions. They are to be implemented by the employees from operations. And the implementation gets impacted by the perception of the employees. For a sensitive organization like bank this needs to be investigated given the recent case of failure of Yes Bank.

Following research questions have been set

Research aims and objectives

The aim of the proposed research should be to do a comparative analysis of the employee perception towards internal audit reports. The comparison should be done between employees of nationalized and private banks.

In line with the research questions, following objectives can be set for the study:

- a. To assess the perception of employees towards internal audit report from nationalized and private banks,
- b. To ascertain the reasons for the positive/negative perception of employees towards internal audit report from nationalized and private banks,
- c. To evaluate the impact of the positive/negative perception of employees towards internal audit report from nationalized and private banks and
- d. To compare the perception of employees towards internal audit report from nationalized and private banks.

Scope of the study

In terms of concept the scope is employee perception towards internal audit report compliance. The context is bank employees from nationalized and private banks. The topic is predominantly from finance domain as it deals with the concept of internal audit which is an important component of an organizations internal control system. The research additionally has a dimension of HR as it deals with a subject like employee perception. The study should be carried at a major city like Pune. Banks that are nationalized and those that are private should be studied. The study should endeavor to measure the employee perception, its impact and a comparative analysis between employees of nationalized and private banks.

Need and significance for the study

As a matter of common knowledge generally cooperative banks are notorious for failures and collapses. Bidar Mahila Cooperative Bank from Karnataka, Sri Anand Co-operative Bank from Pune, Kolikata Mahila Co-operative Bank from Kolkata and Hindu Cooperative Bank from Punjab and Punjab Mumbai Co-operative Bank from Mumbai are some recent cases of failures of cooperative banks (Economic Times, 2019). However, when in March 2020, Yes Bank was put under a moratorium by the Reserve Bank of India, people were shocked. A bank that offers 7% interest on savings deposit, Yes Bank was a popular Bank especially at the urban levels. Flamboyant, aggressive, modern and charismatic – these were some of the features of Yes Bank. Ranking as the top 5th private bank in India (RBI, 2019), Yes Bank was one of the big and reputed name in the banking sector. But its failure has completely shaken the faith and trust of common people as they had never heard of a failure of a private bank of such a standing in the recent past. It is but obvious that the control systems were weak. Control systems are designed to keep things under check, to prevent major mishaps, frauds and failures. Internal audit is one of the major elements of an internal control system (Braiotta et. al, 2010; Pforsich et. al, 2006; Fadzil et. al, 2005). For an organization like bank the function is more important as banks

directly deal with money. It is not the case that banks do not have audit systems. But problem is with compliance of the audit reports, especially the internal audit reports. Employees seem to be insensitive to these reports. They seem to be least bothered about the findings from these reports. And finally, the banks end up in a failure leading to major breach of trust for millions of common people who often park substantial part of their savings with the banks. Failure of banks brings disrepute to the entire national banking system. It puts question marks on the credibility of the central bank. Hence it has become important to understand the psychology of the bank employees with reference to complying with the internal audit reports. If they are having a negative perception, then the very purpose of internal auditing is getting defeated. Thus, it is of significance to probe a bit deeper into this aspect to understand where and why things are going wrong.

The study is expected to make the following contributions:

It will be a first of its kind research in India that will investigate the perception of bank employees towards internal audit report. The study is expected to not only measure the perception, but it will also highlight the reasons for this. The research can also assess the impact of the attitude of the bank employees towards internal audit reports. By way of a comparative analysis, the study can highlight interesting differences in the perception between employees of nationalized and private banks, if any. Its outcome is expected to benefit both academicians and professionals from the banking and auditing sector.

Research Methodology
Research model

The research model for the proposed study is shown as under:

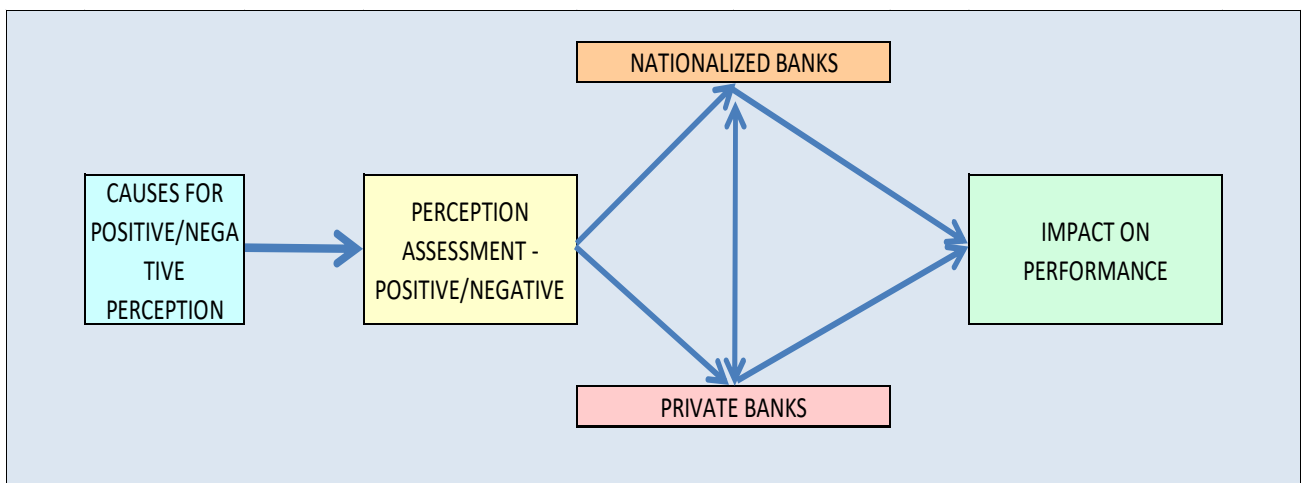


Figure 3 Conceptual model for the study

Variables – Dependent variables - Performance (Employees and Bank), Perception
Independent Variables – Type of Bank, Perception (w.r.t. performance)

Hypotheses

Following hypotheses can be set for the study:
 H0 – The perception of bank employees towards internal audit report is positive
 H1 – The perception of bank employees towards internal audit report is not positive (negative)
 H0 – There are no significant causes for the positive/negative perception of the bank employees towards internal audit report

H1 – There are significant causes for the positive/negative perception of the bank employees towards internal audit report
 H0 - There is no significant impact of the positive/negative perception of the bank employees towards internal audit report on the performance of the employees & bank
 H1 - There is a significant impact of the positive/negative perception of the bank employees towards internal audit report on the performance of the employees & bank

H₀– There is no difference in the perception of the bank employees towards internal audit report due to bank being nationalized or private
 H₁ – There is a difference in the perception of the bank employees towards internal audit report due to bank being nationalized or private

Hypotheses testing

These hypotheses can be tested based on the primary data to be collected by way of a questionnaire.

The sample means would be compared with a hypothesized population mean of 50% connoting happening of the event as a matter chance. Since the standard deviation of the population is not known, as is a common practice, a t-test would be used to test the statistical significance.

Data collection

Structured close-ended questionnaires can be used as the research instrument. Responses would be taken on a 5-point Likert agree/disagree scale.

Sampling method

Convenience sampling method can be used. Information about the branches of the banks can be sourced from the websites of the banks.

Data Analysis

The responses can be statistically processed for descriptive and inferential analysis (testing of hypotheses) using a spreadsheet software.

The assessment of the perception, its causes and impact can be done on the basis of testing of statistical significance using a t-test.

The sample mean (H_0) can be compared with a hypothesized population mean using a t-test at 95% confidence level. For example, if say 80% of the respondents are identified as those with negative perception. This can be compared with a hypothesized mean of the population (H_1) of 50% and based on the p-value of the t-statistic it can be ascertained if the sample mean is statistically significant or not.

For finding out whether the difference in perception between employees of nationalized and private banks is significant or not a parametric or non-parametric two-sample test can be used depending upon the normality of the data collected.

Type of study

The proposed study is descriptive in nature and should largely utilize the primary data. The primary data collection should be from total 400 bank employees from nationalized and private banks (200 each).

Population and sample

As per standard sample size tables like Krejcie and Morgan (1970) for a large population of 20,000, the sample size is 377; same can be rounded off to 400. It can be easily estimated that at a place like Pune the number of bank employees from nationalized and private banks would be more than 20,000.

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