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The Role of Internal Audit in Credit Risk Management in Commercial Banks

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Abstract

Purpose: This study focused on assessing the role of internal audit in credit risk management in commercial banks in Kosovo. **Methodology:** The methodology used was quantitative, involving data collection through a structured questionnaire for internal auditors and bank loan analysts in Kosovo. The survey aimed to gather information about their practices, adherence to Institute of Internal Auditors standards, and the organization's credit risk management structure and responsibilities. The Chi-Square test was applied to test the hypotheses. **Study Findings:** Internal audit affects the reduction in credit risk and the definition of existing credit policies. Also, a positive relationship was found between bank size and the approach used in auditing, and the organisation of credit policies and credit risk management in commercial banks in Kosovo. **Originality:** Through this scientific paper we can present real and consistent results regarding the role of internal audit in credit risk management in commercial banks in Kosovo. Extracting data from the questionnaire and adhering to international standards on auditing leaves room to draw competent conclusions and recommendations in this area.

Keywords: Internal audit, commercial banks, credit risk, risk management.

JEL: G21, M4, M42, M48,

1. Introduction

Banks and the financial services they provide play important roles in the economic development of the country. Moreover, through the level of loans they offer and the economic activities they finance, they are considered as one of the essential catalysts for achieving this development. Banks also help assess financial performance within a country, and given that Kosovo is a relatively young economy in which deep economic transformations have taken place, from a centralised economy to a market economy, the presence of the banking sector undoubtedly will be imperative and represent a significant and important part of the financial sector. Given this weight held by banks, it was deemed necessary to adopt a broader approach that would enable the monitoring of banks, ensure the safeguarding of funds, protect them from manipulation, fraud and theft, and that would impede management

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intervention. This approach called internal audit (IA) also offers the opportunity to improve and evaluate the effectiveness of risk management (Cooper et al., 2003). Internal audit assists the organisation in achieving its strategic, operational and financial objectives. It is a catalyst for improving the effectiveness and efficiency of an organisation by providing assurance and recommendations based on the analysis and evaluation of data from business activity (Anderson et al., 2018). Many people connect the genesis of IA with the founding of the Institute of Internal Auditors (IIA) in 1941. Both the IIA and the IA profession have evolved drastically since then. Internal audit is now truly a global profession and the demand for IA services continues to grow. IA activities require professionals with a deep understanding of business processes, systems, and culture. In this way, we ensure that internal controls are appropriate for mitigating risks, governance processes are effective, and organizational goals and objectives are achieved (Graham, 2015). An important process is the fact that credit risk management cannot be performed without the help of internal auditors, due to the fact that these economic actors contribute to solving problems. Furthermore, they help the institution to achieve its objectives. To hedge against this risk, banks use a large amount of capital and create provisions for which the opportunity cost is significant. According to the Credit Risk Management Regulations established by the Central Bank of Kosovo (CBK), approved on April 26, 2013:

All commercial banks operating in Kosovo as part of risk management must have a system that is appropriate to the nature, volume and complexity of their activities. This system should include various policies, memoranda, procedures and strategies related to credit risk management (BQK, 2019).

Kosovo's banking system has chosen financial supervision with a safer and more gradual approach by complying in advance with international standards, with particular emphasis on European Banking Supervision regulations (Basel Framework). Kosovo banks are also governed by Basel I and II legislation, which requires banks to take risks and develop risk management departments.

Kosovo banks are required to report financial statements in accordance with International Financial Standards (IFRS) and accounting standards. They should also determine the level of risk that banks deem appropriate and to which it may be exposed, and once this level has been set they can develop a plan to optimise repayment by keeping credit risk within predetermined limits. Commercial banks must report to the CBK on the classification of loans and other assets that generate credit risk, as well as the provision of provisions for loan loss provisions in accordance with the requirements set out in the Regulation on the Reporting of Non-Bank Financial Institutions.

This paper is organised into four sections. The first part presents a summary of the study; the second part presents the literature review with special emphasis on the relationship between IA and credit risk; in the third part the empirical model adapted to the characteristics of our study is specified and evaluated, followed by the presentation of the main results. Finally, conclusions are summarised.

2. Literature Review

The Framework (COSO, 1992) and the Report (Turnbull, 1992) define IA as:

An internal control system that provides support in achieving the objectives of the organisation, facilitates the effective and efficient operation of enterprises by enabling them to respond appropriately to financial, compliance and other risks. This includes safeguarding assets against misuse or loss and fraud, and ensuring that liabilities are identified and managed.

According to the research by Cascarino (2015), IA is a profession that identifies, analyses, evaluates and documents different types of information that enable the achievement of the bank's objectives. The audit does this by using analytical methods that enable it to examine and compare the relationship between financial and operational data. Therefore, the information to be evaluated should be relevant and useful in order to provide a solid foundation for the findings and recommendations.

Anderson et al. (2018) and Karagiorgos et al. (2007) specify that the scope of IA should include a regular portfolio review, successful management of loan provisions and internal credit assessments, which are some of the critical points that enable internal auditors to identify, assess and mitigate credit risk, whereas Leung et al. (2007) emphasise that the audit function is mainly to ensure the reliability of the financial statements prepared by the managers of the company for their shareholders, and state that the objectives of the audit are to detect fraud, technical errors and errors of principle.

As professionals, Gray & Manson (2011) emphasize that auditors provide unbiased opinions unaffected by prejudices, compromises or conflicts of interest. They are also independent, and this requires them to be free from situations and relationships that would make it possible for a third party to conclude that the auditors' objectivity is either impaired or may be impaired.

Based on the fact that the main activity of commercial banks in Kosovo is lending to private clients and small and medium enterprises, credit risk is one of the most obvious risks faced by commercial banks in Kosovo: the risk where the borrower may not be able to fulfil the obligations of the contractual agreement. Given this issue, credit risk poses a significant risk (Bolder, 2018). Therefore, managing and reducing credit risk has acquired a special importance in the context of achieving a successful performance in a bank. The role of auditing in risk management is determined by the level of value that auditing adds to the organization (Pickett 2010). Internal audit reviews the risk assessments and internal controls in place to ensure that they are effective. When risk assessments are not clear or not documented, the internal auditor may work with management to document them and make them clear – Is the audit evidence sufficient, competent, relevant and useful in terms of leading an improved Enterprise Risk Management ERM process? Many other questions of this type are answered by the scope of the audit.

In the short span of time since its inception as a financial enforcer, IA has risen to become a respected participant in the management decision-making process (Rezaee & Lander, 1991). The role of IA is independently to assess the adequacy and effectiveness of policies, procedures and processes applied by the organisation to manage credit risk. Internal audit activity ensures that the results achieved by the management affected by credit risk are consistent with the mission, strategies and risk appetite of the organisation. The complexity of the work programme for measuring and monitoring credit risk will depend on the size of the institution, the complexity of their loan portfolios and the products offered (Anderson et al., 2018). Larger institutions may have in-house software that monitors credit risk, money laundering (AML), and more. Effective credit risk measurement and monitoring programmes should include both quantitative and qualitative factors. Subjective measures, such as the quality of collateral, unpaid taxes, economic changes and appraisal agencies, can all affect a borrower's appraisal. Therefore, organisations should have a well-designed risk assessment system to monitor credit risk exposure in different portfolios (Porter et al., 2005). In very small institutions, monitoring the risk assessments of individual borrowers may be appropriate. Larger institutions with complex portfolios will have more detailed and sophisticated risk assessment and monitoring systems that can be used to monitor risk exposure for the individual borrower, but also the allocation of capital for strategies, loan pricing and the benefit of transactions and relationships. All these risk assessments should be compared to the institution's declared risk appetite and risk limits. Internal auditors should conduct audits or tests to verify that boundary violations have been brought immediately to the attention of senior managers and that they are resolved within the institution's stated policies and procedures (IPPF, 2017).

3. Research Methodology

The objective of this study was to identify the importance of IA in the effective management of credit risk. The internal auditors and credit analysts of commercial banks in Kosovo responded to the extent that IA reduces credit risk through a structured questionnaire. This questionnaire was designed to gather practical information on how experts in this field perceived the impact of audit processes on credit risk management. Various research methods such as research, comparison and data analysis have been used to carry out this work.

The questionnaire was created based on the instruments of the questionnaires created by the authors (Alkafaji et al., 2010) and (Sitotaw, 2018). To conduct this research, different primary (questionnaire) and secondary sources (different books, different publications from relevant institutions, as well as different scientific publications) were used. The Chi-Square test was used to test the hypotheses raised, while for the presentation of the collected data different statistical methods and software packages were used, such as SPSS and MS Excel.

The questionnaire was divided into three parts. The first part identified general information on the auditor and his/her competencies in the organisation; the second gathered data on the institution; and the third questioned the connection of the audit process in reducing credit risk and the use of IIA standards during this process. The questionnaire included closed and open questions rated on the Likert scale to examine the extent to which participants agreed or disagreed with the statements made.

Based on the importance of IA for the banking sector, the hypotheses raised for this study were:

H1: Internal audit reduces credit risk.

H2: Internal audit influences credit sizing policies

H3: Approach to internal audit affects existing credit policies.

4. Data Analysis and Results

The total number of respondents was 20; some of them were contacted physically, while the questionnaire in electronic form was sent to others. Physical contact enabled us to hold short interviews with credit analysts, where, in addition to the answers received from the questionnaire, we were informed in more detail about the credit policies of the respective banks, the organisation of the audit department, how they manage risk creditors and many other factors, which we will present in the following.

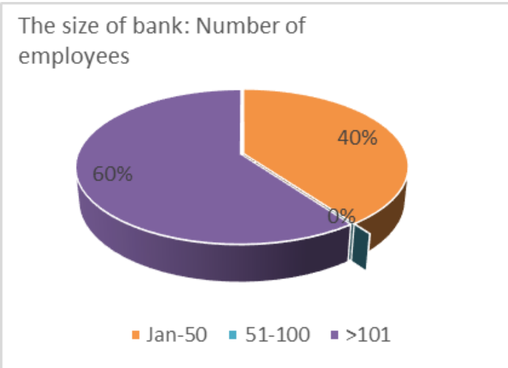

Figure 1. The size of the bank

Source: Authors' analysis from the opinion poll during May–June 2021

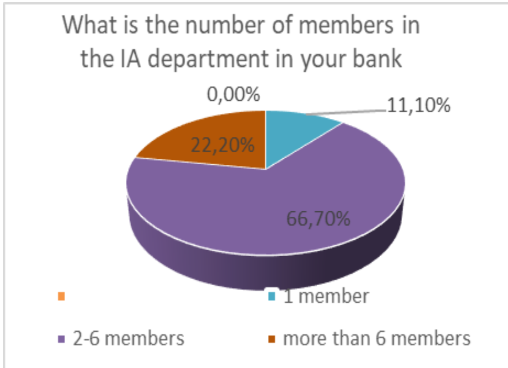

Figure 2. Number of members in the audit department

Source: Authors' analysis from the opinion poll during May–June 2021

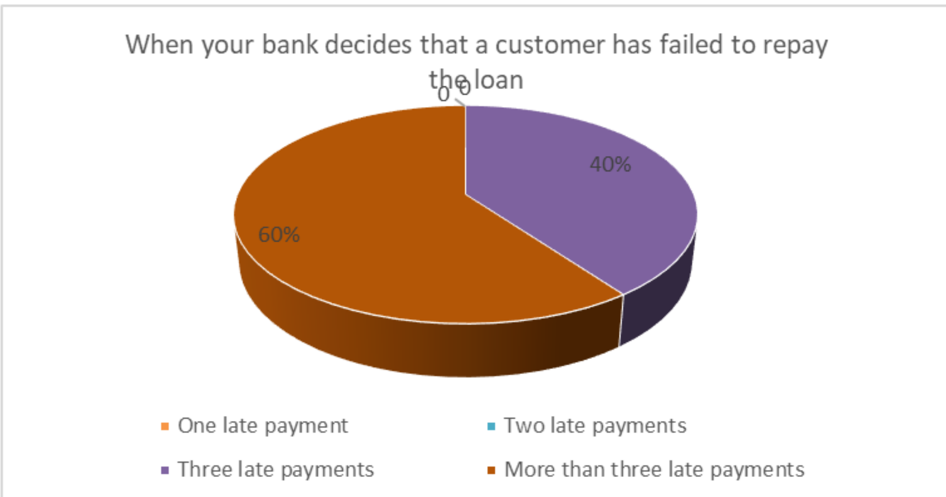

Figure 3. *Repayment of loans*

Source: Authors' analysis from the opinion poll during May–June 2021

4.1. Interpretation of results related to factors affecting credit risk

Client history is the best predictor of the future; a lender should analyse the personal credit of all borrowers and guarantors involved in this activity. Credit analysis by a lender is used to determine the risk associated with granting a loan. The five components that comprise a credit analysis are driven by the so-called 5Ks: character, capacity, condition, equity and collateral. 'Knowing each of the 5Ks, we will have a better understanding of the needs and how to prepare for the loan disbursement process'. Below are the graphs for each factor and the opinion of bank analysts in Kosovo of their impact on credit risk.

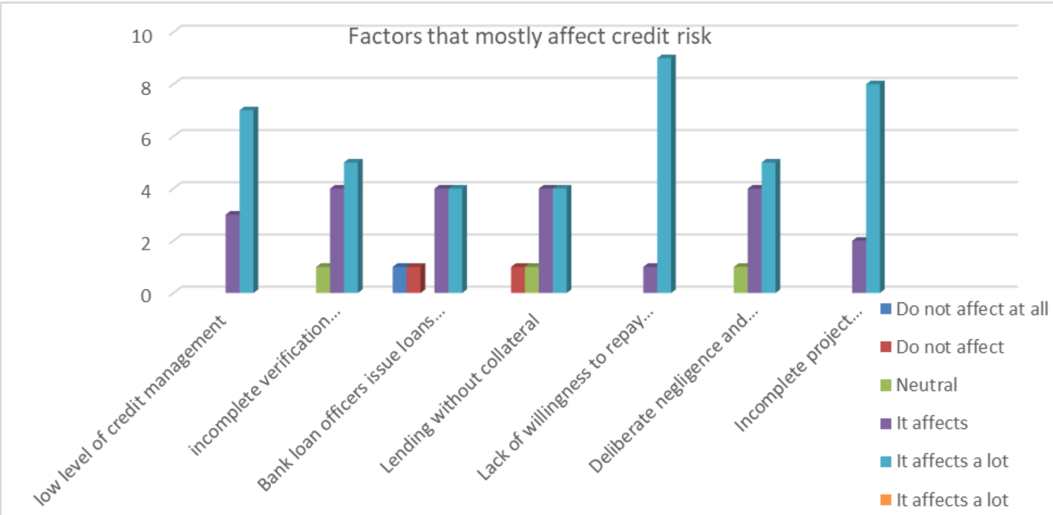

Figure 4. Factors that mostly affect credit risk
Source: Authors' analysis from the opinion poll during May–June 2021

The chart above presents the factors and the weight of their impact on the degree of credit risk. The results show that the impact of low level of credit management, incomplete verification mechanism, granting loans without collateral and lack of willingness to repay the loan are the most relevant factors in credit risk calculations, while non-fulfilment of conditions by bank loan officers, intentional negligence and improper assessment by credit bureaus as well as deficient analysis of project sustainability do not affect the credit risk management of commercial banks in Kosovo.

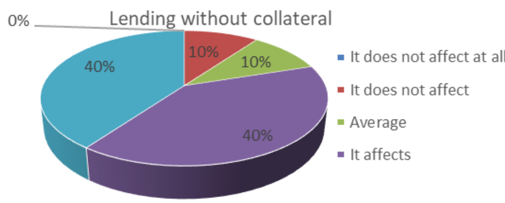

Figure 5. Results of the impact of non-collateral lending on credit risk

Source: Authors' analysis from the opinion poll during May–June 2021

The chart above shows the percentage of survey results related to the impact of non-collateral lending on credit risk. The results show that a maximum of 80% of respondents stated that granting loans without collateral

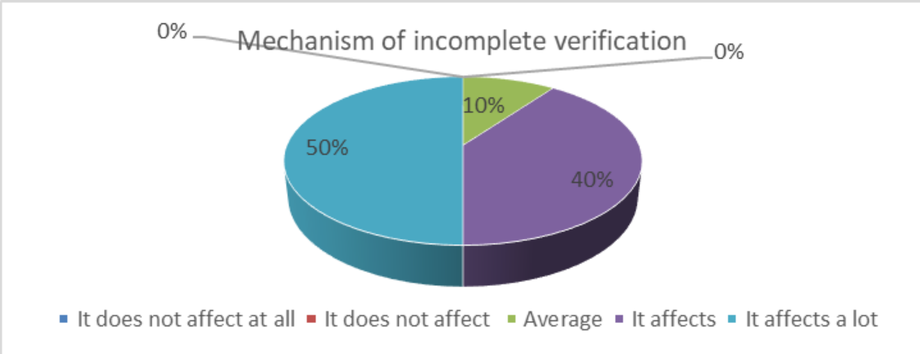

Figure 6. Results on the impact of the mechanism of incomplete verification on credit risk
Source: Authors' analysis from the opinion poll during May–June 2021

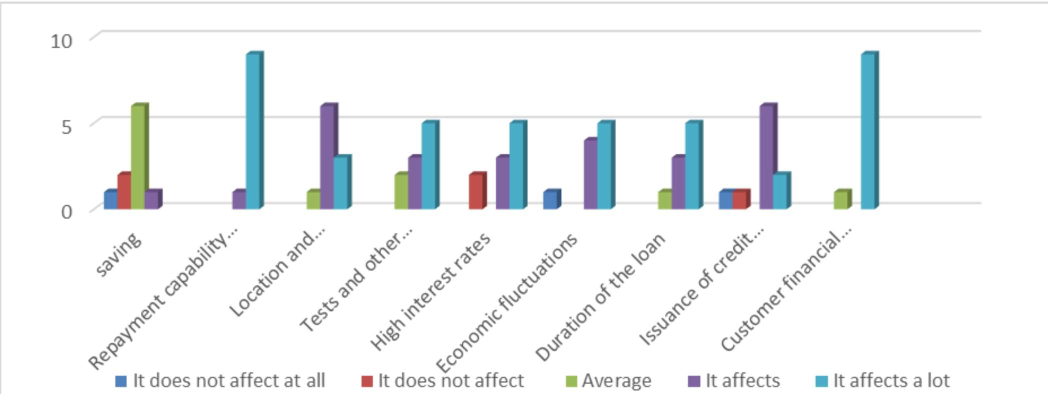

Figure 7. Factors that determine the size of the loan and the ability of the client to repay the loan
Source: Authors' analysis from the opinion poll during May–June 2021

increases credit risk, whereas 20% stated that this activity in the banking sector does not affect the increase in credit risk. Collateral agreement is a tool for reducing risk by reducing the credit exposure to risk. Collateral does not turn a bad party into a good one, it simply helps the bank's management to reduce or eliminate the credit risk that the bank faces during the exercise of this activity (Jiménez et al., 2006).

This is the graphical form of the results from the survey of the impact of the mechanism of incomplete verification on credit risk. According to the results, 90% of the respondents indicate that the incomplete verification mechanism affects the credit risk, and only 10% of the respondents stated that this activity is not considered as indicating credit risk by the respective bank. The graph shows that the incomplete verification mechanism is a very present factor for the credit risk calculation by commercial banks in Kosovo.

4.2. Interpretation of results regarding the factors that determine the client's ability to repay the loan

The chart above presents the factors and the weight of their impact on determining the size of the loan and the ability of the client to repay the loan. While the client's ability to repay based on current performance and the client's financial strength are the most important factors in determining the size of the loan, it is worth noting that at the time a loan is disbursed a detailed analysis of each of the above factors should be made, due to the great weight that these factors carry. Thus, tests and reports of non-financial information form the initial basis for building a credit analysis because, in addition to providing data on the client's background, they also show the current and future financial condition of the client.

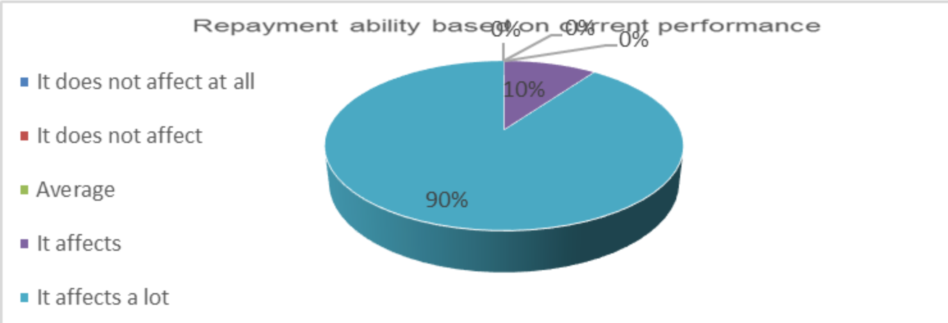

Figure 8. Results on the impact of repayment ability based on current performance
Source: Authors' analysis from the opinion poll during May–June 2021

The repayment ability or financial ability of the customer is the key factor that determines whether or not a customer will repay the loan. The graph shows that 90% of banks in Kosovo analyse the financial strength of the client at the moment they decide to issue a loan.

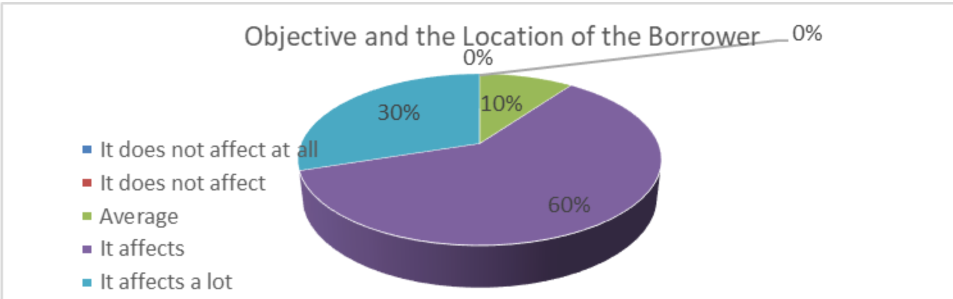

Figure 9. Results of the impact of the objective and the location of the borrower
Source: Authors' analysis from the opinion poll during May–June 2021

Based on the results of the survey we can conclude that the location of the borrowing institution has a very large impact on determining the size of the loan and the ability of the client to repay. We note that 60% of the respondents support this opinion and that they claim that this is one of the key factors in determining the size of the loan because the closer the borrower is to the industrial country, the higher the probability that they will provide a profit, and in this case repay the loan; the other respondents do not support this theory.

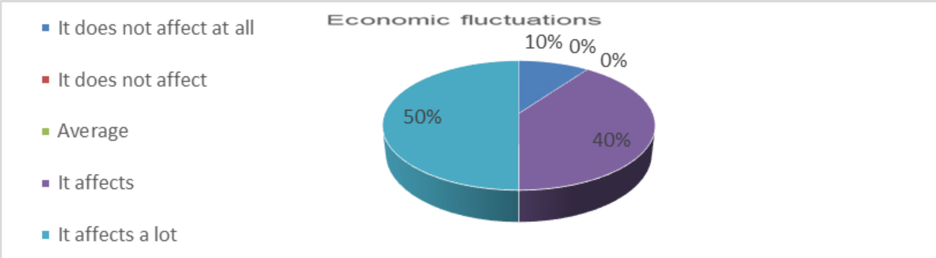

Figure 10. Results for economic fluctuations
Source: Authors' analysis from the opinion poll during May–June 2021

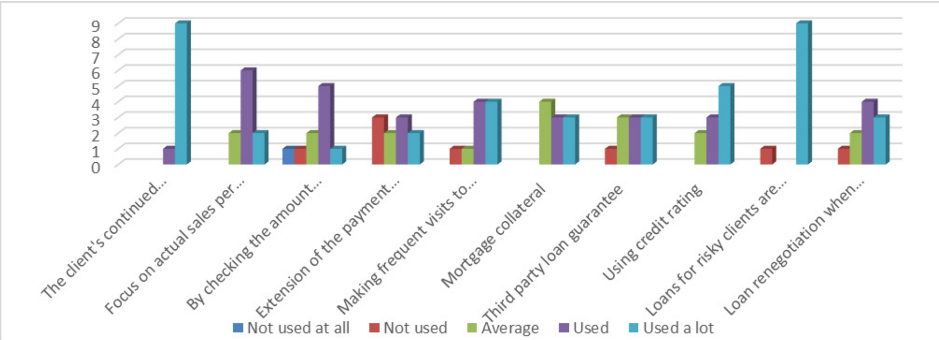

Figure 11. Credit monitoring techniques and measures used to reduce the risk of default
Source: Authors' analysis from the opinion poll during May–June 2021

From the graph above we can conclude that economic fluctuations are also most important factors in determining the size of credit. It is known that when the country faces economic difficulties, as was the case with Covid-19, banks tend to set credit limits, thus trying to avoid credit risk. Fifty-six percent of the respondents agreed with this view and apply this policy, while 11% were of the opinion that economic fluctuations do not affect the loan size and ability of the client to repay the loan.

4.3. Interpretation of results related to credit monitoring techniques and measures used to reduce the risk of default

The chart above presents the credit monitoring techniques and measures used to reduce credit risk. Monitoring the customer's ability to repay the debt, focusing on actual sales per month, controlling the amount deposited and the borrower's balance sheet are some of the most commonly used techniques for monitoring loans and extending the payment period when it is necessary. Making frequent visits to ensure that the client maintains the business and intends to repay the loan, loan renegotiation when customers encounter difficulties, avoidance of loans to risky customers, the use of credit rating, third-party loan guarantees and collateral pledged, are measures applied by banks as forms of control to manage credit risk.

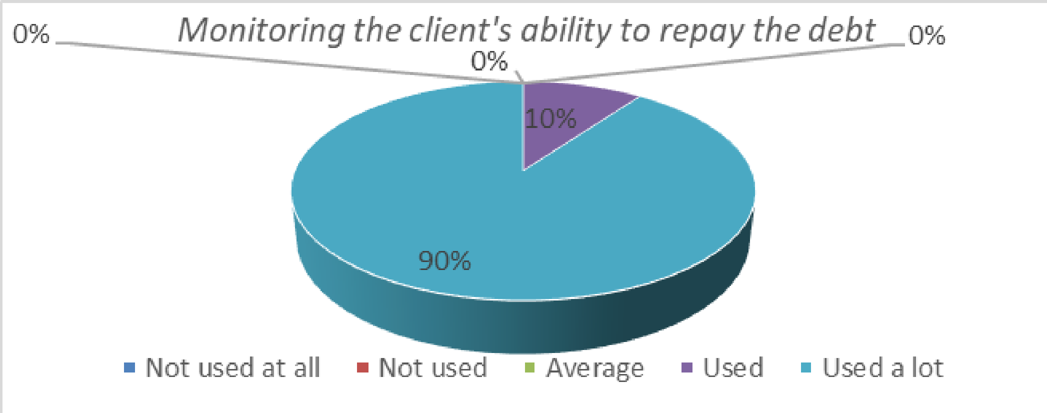

Figure 12. Results for monitoring the client's ability to repay the debt
Source: Authors' analysis from the opinion poll during May–June 2021

One of the most frequently used credit monitoring techniques by commercial banks in Kosovo is the continuous monitoring of the client's ability to repay the debt. This view was shared by almost all the respondents, who see this technique as one of the most effective and safe techniques to prove that the client is repaying the loan on a regular basis and in regular amounts.

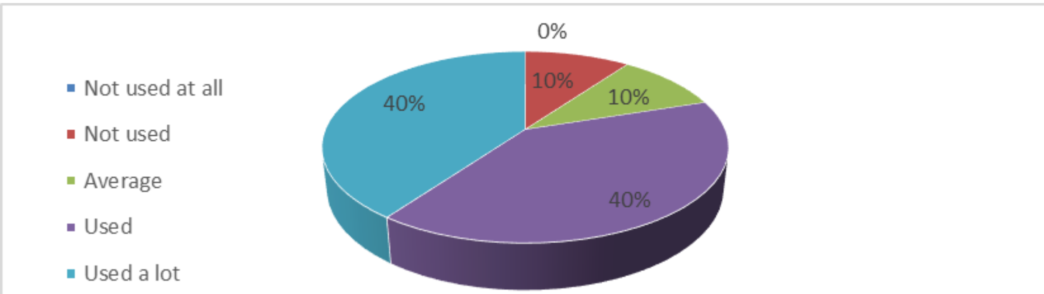

Figure 13. Results of frequent visits to ensure that the client maintains the business and intends to repay the loan
Source: Authors' analysis from the opinion poll during May–June 2021

Based on the graph above we can conclude that the frequency of visits to customers to make sure that the customer is maintaining their business and intends to repay the loan is one of the measures used by banks in Kosovo to control customers to ensure that the loan will be repaid and will not turn into a non-performing loan, thus keeping the credit risk under control. Forty percent of respondents stated that this measure is widely used and another 40% use it but not to such an extent or as often.

4.4. Testing the dependence of IA on reducing credit risk

The Chi-Square test was used to determine whether credit risk reduction depends on IA processes.

Table 1. Cross-tabulation: The impact of IA on reducing credit risk

Ensuring managers act in accordance with laws, rules and guidelines * Incomplete verification mechanism: Cross-tabulation

			Incomplete verification mechanism			Total
			Neutral	Affects	Affects strongly	
Ensuring managers act in accordance with laws, rules and guidelines	Describes	Count	1	0	0	1
		% Percentage of managers acting in accordance with laws, rules and guidelines	100.0%	0.0%	0.0%	100.0%
	Describes it strongly	Count	0	4	5	9
		% within Ensuring managers act in accordance with laws, rules and guidelines	0.0%	44.4%	55.6%	100.0%
Total		Count	1	4	5	10
		% within Ensuring managers act in accordance with laws, rules and guidelines	10.0%	40.0%	50.0%	100.0%

Source: Author's calculations in SPSS (2021)

Table 2. Chi-Square tests for IA dependence on credit risk reduction

	Value	df	Asymptotic significance (2-sided)
Pearson Chi-Square	10.000[a]	2	0.007
Likelihood ratio	6.502	2	0.039
Linear-by-linear association	4.455	1	0.035
No. of valid cases	10		

[a] Six cells (100.0%) have expected count less than 5. The minimum expected count is 10.

Source: Author's calculations in SPSS (2021)

At the 95% level of significance, we can say that IA affects the reduction in credit risk in commercial banks in Kosovo. As seen from the above Chi-Square tests table, it has a value of 10.000, while the tabular value of X^2 found from the table is 5.991 with degree of freedom df = 2 and significance level $\alpha = 0.05$. Since 10.000 > 5.991, hypothesis H1 is accepted. The same result is achieved even if we rely only on the significance of X^2, where, as 0.007 < 0.05, H1 is accepted and H0 is rejected. The IA function in a banking institution will perform regular checks on whether the strategic risk management system is properly implemented and whether the policies imposed and control procedures related to risk management are in line. The risk management process and internal controls should be reviewed and tested periodically. Audit frequency may vary; however, it should be increased if there are significant weaknesses or if major changes or new products are introduced to the market by the bank. The audit process should recommend that banking institutions should adopt and implement strategic measures to reduce risk and use techniques to achieve the strategic objectives of the institution (Siqani & Sekiraca, 2016). Directors and management must be qualified to formulate strategic and operational plans, and staff should be of high quality with adequate training and must be able to respond to change and keep abreast of the latest trends and developments in the field. Also, the audit process should be recommended, as banks should be careful about the degree of concentration of credit risk so as not to significantly increase the sensitivity to exposure to default. In addition, banks must perform stress analysis tests, which are additional tools through which the stability of the sector and potential shocks to the loan portfolio, as well as to liquid assets, are estimated. From the answers given by the respondents, we understood that all banks conducted the audit process on a regular basis and in exceptional cases when additional control was needed. All banks reported that the results and recommendations arising from the audit process helped minimise intentional and unintentional errors by staff involved in the commercial bank's credit risk estimation. Also, all banks reported that audit recommendations generally reduced the credit risk of the respective bank.

4.5. Testing of IA dependence on credit sizing policies

Based on the significances in the third table we can see that the level of test significance is greater than 0.05 (0.274 > 0.05) so we can conclude that IA does not affect the policies for determining the size of credit by commercial banks in Kosovo, i.e., H0 is accepted and H2 rejected. The same result is achieved even if based on the values of the degree of freedom; the value of X^2 calculated in SPSS is 2.593, while the tabular value of X^2 with degree of freedom 2 and significance level 0.05 is 5.991. As 2.593 < 5.991, H2 is rejected. Ondieki (2013) states that internal auditors, if they act in accordance with auditing standards and with the criteria accepted by the practice, will affect banking performance and will contribute to improvements in risk management. Perhaps, from economic theory, the auditor's opinion is all that is needed by the higher authorities regarding the appropriateness of operational and tactical activities, international auditing

Table 3. Chi-Square tests for the second hypothesis

Chi-Square tests

	Value	df	Asymptotic significance (2-sided)
Pearson Chi-Square	2.593[a]	2	0.274
Likelihood ratio	2.683	2	0.262
Linear-by-linear association	1.667	1	0.197
No. of valid cases	10		

[a] Six cells (100.0%) showed expected count less than 5. The minimum expected count is 30.

Source: Author's calculations in SPSS (2021)

Table 4. Chi-Square test for the third hypothesis

	Value	df	Asymptotic significance (2-sided)
Pearson Chi-Square	10.000[a]	4	0.040
Likelihood ratio	11.367	4	0.023
Linear-by-linear association	6.752	1	0.009
No. of valid cases	10		

[a] Nine cells (100.0%) showed expected count less than 5. The minimum expected count is 0.20

Source: Author's calculations in SPSS (2021) rules and standards. This was not the case in our study because auditors, no matter how well they conduct their practice in accordance with international standards, will not have time to influence the decisions taken by policy makers, nor influence the determination of loan amounts made by commercial banks in Kosovo.

4.6. Testing IA dependence on existing credit policies

Based on the level of significance, where 0.040 < 0.05 we can conclude that H3 is accepted and the basic hypothesis is rejected. An audit is a process of verifying financial statements, but the auditor's work varies depending on how the operation is examined. The approach that the auditor takes during the review process occupies a special place in the drafting of regulations related to the operational activities of the bank (Kalimashi et al., 2020). For risk management to be effective in credit policies, it must be communicated in a timely manner, reviewed regularly and implemented at all levels of the bank, using proper procedures. The control of these policies and procedures is monitored by the IA department of each bank. Internal audit provides alternatives for solving problems and assisting the institution in achieving its objectives as planned, as well as recommendations for further improvement and development. The challenge for IA is to ensure that banks have a thorough practice of the risk management model, including approaches that the auditor applies in the development of their profession, such as concentration based on risk-based methodology, on management requirements, and based on the previous year's audit report and according to audit committee requirements. These approaches can have a major impact on the design of regulators. Therefore, even by this analysis, the approach used by the auditor has a great impact on the existing policies of commercial banks in Kosovo.

Based on the results of the three hypotheses put forward in this paper, we can now answer the research question; Does IA affect credit risk management?

It influences, through reports prepared by the IA department, how the bank has deeper access to financial and non-financial information: information that is significant in the process of building credit policies and issuing loans, where a well organised and well analysed credit policy will result in better credit risk management and a smaller number of non-performing loans.

4.7. Crossed tables

In this part of the topic, crossed tables constructed from the primary data extracted from the questionnaire are presented. SPSS software was used to construct these tables. A comparison will be made of some selected questions that are of great importance to banks, questions which we have not included above.

Table 5. Impact of bank size on the size of the audit department

The size of the bank * The size of the IA department: cross-tabulation

			The size of the IA department			Total
			1 employee	2–6 employees	more than 6 employees	
The size of the bank	1–50 employees	Count	1	3	0	4
		% within The size of the bank	25.0%	75.0%	0.0%	100.0%
	more than 100 employees	Count	0	0	6	6
		% within The size of the bank	0.0%	0.0%	100.0%	100.0%
Total		Count	1	3	6	10
		% within The size of the bank	10.0%	30.0%	60.0%	100.0%

Source: Author's calculations in SPSS (2021)

The table above compares the size of the bank in terms of the number of employees with the size of the IA department within the bank. The results show that the largest number of banks in Kosovo had over 101 employees, while the least employed 0–50. From the organisation of the IA department, we see that the most common forms were those with 2–6 members and over 6 members. From this we can conclude that the larger the bank, the larger the IA department will be.

Table 6. Comparison between the size of the bank and the decision to repay the loans

The size of the bank * When the bank decides that a customer has failed to repay the loan: cross-tabulation

			When the bank decides that a customer has failed to repay the loan		Total
			Three late payments	More than three late payments	
The size of the bank	1–50 employees	Count	4	0	4
		% within The size of the bank	100.0%	0.0%	100.0%
	more than 100 employees	Count	0	6	6
		% within The size of the bank	0.0%	100.0%	100.0%
Total		Count	4	6	10
		% within The size of the bank	40.0%	60.0%	100.0%

Source: Author's calculations (2021)

From the table above it can be seen that the larger the bank, the later the decision to demand repayment of a loan will be made. Banks with more than 100 employees make the decision to demand repayment of the loan after more than three late payments, while those with 1–50 employees are alerted earlier regarding the delay and the possibility of loan failure, i.e., after three late payments or after 90 days.

Conclusions and Recommendations

Effective credit risk management is essential to the success of banks in today's competitive environment. The objective of this paper was to appeal to credit analysts and internal auditors with at least one year of work experience, and this was achieved. Thanks to the distributed questionnaire we were able to gather important information on how banks in Kosovo organise the loan disbursement process and to what extent IA affects the provision of information needed to manage credit risk.

Based on the analysis of the Chi-Square test with a level of significance of 95%, the conclusion is reached that IA affects the reduction in credit risk and that the approach used by the auditor during the exercise of their profession in commercial banks in Kosovo affects existing credit policies. The second hypothesis regarding the influence of IA in determining the size of a loan is rejected, due to the fact that the internal auditor helps to provide and verify information as to whether a client is competent or not to take out a loan, but not to determine the size of that loan.

The results of the cross-tabulations provided us with information on how much the size of the bank affects the organisation or size of the IA department, and how much the size of the bank influences the decision to repay the loan. From this analysis a positive connection is found, where as the size of the bank increases, the number of members in the IA department tends to be higher and the decisions to repay a loan tend to be taken later after several payments late, and not be alerted earlier as is the case with banks with a smaller number of employees.

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