THE FACTORS IMPAIRING THE INDEPENDENCE OF INTERNAL AUDITORS IN RWANDA: A SURVEY OF SELECTED MEMBERS OF INSTITUTE OF INTERNAL AUDITORS - RWANDA CHAPTERS

A Dissertation Submitted to the University of Rwanda, College of Business and Economics in Partial Fulfillment of the Requirements for the Award of a Master Degree of Business Administration (Finance Option)

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DECLARATION

I hereby declare that this study is my original work and it has not been submitted to any other University, research institution or any other organization for any purpose.

HAVUGIMANA Dieudonne

Signature…………………………… Date…………………………………..

CERTIFICATES

We the supervisors of Mr. Dieudonne Havugimana certify that this thesis titled "Factors impairing the independence of internal auditors in Rwanda: A survey of selected members of Institute of Internal Auditors- Rwanda Chapter" is the original work of Mr. Dieudonne and has never been submitted to any other institution for any other purpose.

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DEDICATION

This work is dedicated to Almighty God for the gift of life and wisdom that helped me to draw the conclusions of this study. It is also dedicated to all contributors of this research specifically my supervisors. Finally I want to dedicate this work to my incredible mother NGEZEBARORE Thamali for her unlimited patience and cares from my childhood.

LIST OF ABREVIATIONS

AAA	:	Association of American Auditors
IIA	:	Institute of Internal Auditors
IIARF	:	Institute of Internal Auditors Research Foundation
KPMG	:	Klynveld Peat Marwick Goeldeler
OECD	:	Organization of Economic Cooperation and Development
PSF	:	Private Sector Federation
REG	:	Rwanda Energy Group
UR	:	Rwanda Social Security Board
RSSB	:	SPSS: Statistical Package for Social Sciences
WASAC	:	University of Rwanda
WDA	:	Water and Sanitation Corporation

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ABSTRACT

The study was conducted to examine the factors impairing the independence of internal auditors in Rwanda: the case study of selected internal auditors' members of the institute of internal auditors Chapter of Rwanda. It aimed to study the factors impairing the independence of internal auditors.

The study used a descriptive research design and targeted 186 respondents' members of institute of internal auditors in Rwanda. Data was collect by using a questionnaire designed to answer research questions and meet research objectives. The study used SPSS Version 20 to analyze data through frequency tables in percentages, mean, standard deviation and correlation

The study revealed that internal auditors in Rwanda are moderately independent with other emerging threats to their independence. The study further found that independence of internal auditors in Rwanda is very strongly impaired by reporting structures where audit reports are subject to prior approval of management before being released and have given unreasonable deadlines to complete the audit test. The study also found that independence of internal auditors is impaired by traditional practices and limitation in scope by being restricted on some financial matters and limited access to some financial records.

The study has also shown that independence of internal auditors have significant implications on corporate governance through enhancement of discipline, accountability and transparency. Finally the study revealed that audit committee protects the independence of internal auditors by providing independent forum and regular meetings between internal auditors and audit committee to raise the matters on weakness of the management.

The study recommended that independence of internal auditors need to be strengthened, the study again recommended that reporting structures need to be improved and abandonment of traditional practices of internal auditing profession. Finally the study recommended the audit committee to provide consistent meeting with internal auditors for protecting their independence.

Keywords: Impairing factors, Independence of internal auditors , Internal audit, audit committee

CHAPTER 1: INTRODUCTION

1.1 Background of the study

The term independence has been defined as “avoidance of situations which would tend to impair objectivity or permit personal bias to influence delicate judgment” (Carey J.L & Doherty W.O, 1996) particularly, Auditor independence, implies “absence of influence or control in the matter of the auditor’s conduct, action and opinion” (Association of American Audit Committee (AAA) on Basic Auditing Concepts, 1973) . Simply, it refers to the auditor’s ability and capacity to express his or her conclusions honestly and impartially. Internal audit is seen as a key crucial element of corporate governance. In contemporary managements, internal audit existed to add value to organizations. As described by the Institute of Internal Auditors (IIA, 1999) "organization existing to create value by meeting stakeholders"

Audit is demanded as a mechanism of monitoring because of avoiding potential conflicts of interest that can arise between owners and managers and other different classes of stake holders in an organization. The monitoring role means that auditors are using it as a mechanism to enhance credibility and trustworthiness of financial statements to the extent that general public who are not involved in the daily running and operations of the organization may have some degree of confidence in the reported financial position of the institutions or companies. Audit quality, is defined by Watts and Zimmerman (Watts .R and J Zimmeman, 1983) as the probability that a discovered breach is reported and corrected in time to ensure that the reported financial statements represent a true and fair view of the financial position of the firm.

This concept gives the purpose for its existence. IIA (1999) defined internal audit as "an independent, objective assurance and consulting activity designed to add value and improve an organization’s operations". It facilitates entities to achieve their objectives through providing internal assurance and enhancing the effective approach of risk management and enforcement of governance principles.

"The definition signifies why internal audit has undergone a paradigm shift from emphasis on accountability about the past to improving future outcomes to help auditors to operate more effectively and efficiently" (Nagy. AL and W.J. Cenker, 2002) .

(MB, 1994) used agency theory to express the need of maintaining strong internal audit department in the interest of management . The main emphasis of this definition is an independent and objective provision of internal audit services. "Independence and objectivity are some of the core values of internal audit and these are enshrined in the code of ethics" (IIA, 1999).

Internal auditors' independence is like the building block of the auditing profession, since it forms the foundation and cornerstone for both the public and private institutions and companies for the trust in the attest function of ascertaining whether the financial statement provides a fair and true position of the financial status of an organization (Caswell, B.&C. Allen, 2001). Independence allows internal auditors to give the service in the impartial and unbiased judgments essentially to the proper conduct of the engagements. Audits have been existed since the development of business corporations in 1200 (Watts .R and J Zimmeman, 1983).

The internal audit function plays the role regarding independent examinations to give assurance about different operations of the organization for the purpose of enhancing effective controls and governance (IIA, 2014). Internal audit is helpful to safeguard organizational resources and give a continuous feedback on assessment about how to reduce the risks inherent from the principal - agent relationship (Adel, 2011)

Agency theory suggests that individuals tend to make decision that benefits them against shareholders. The conflict of interest arises when the managers take decision that optimize their interests against owners of the company and this represents an agency cost and thus audit function exist to provide feedback to shareholders via the board of directors as to the behavior of manager (Janet L. Colbert, John S Jahera.Jr., 2011)

Separation of management and ownership of the company both in public or private creates ideal context for the operationalization of agency theory where shareholders are regarded as principal with the interest of achieving maximum interest from the company. The separation of ownership leads to conflict of interest and inability of the shareholders to monitor all actions and activities as results there is a need to employ certain sources of the information systems and control measures to minimize agency costs (Krishnan, G. V & Visvanathan. G, 2013)

Davis and Schoolman argue that mechanisms of monitoring and bonding are not needed since under stewards theory there is no need to prevent agency losses, but they do not say that accountability mechanisms which are different from monitoring and bonding, are redundant while the theory focuses on structures that empowering rather than controlling and enforcing internal accountability mechanism to act as stewards (Davis J, Schoolman F, Donaldson L, 1997)

The stakeholder theory is also connected to the concept of corporate social responsibility which is a form of self regulatory mechanism incorporated into the business model whereby businesses ascertain that they act in a socially responsible manner (Salomon, 2010).

The principles governing internal auditing offers quality reporting without undue influence of senior management in all activities and processes undertaken to provide assurance as to whether the agent has used the resources as expected by set rules (Adel, 2011) . Independence of internal audit is achieved through establishing a good reporting structure which is clear to all parties concerned in the organization to achieve appropriate mindset. Internal auditing is a professional activity that involves the advising the organization on how to better achieve their goals by managing risks and improving internal controls.

Internal audit charter by Government of Rwanda Through MINECOFIN in audit committee handbook of 2013 states "the main functions of internal audit is to determine whether the respective entity’s risk management, control, and governance processes, as designed and operated by management, are adequate and functioning in a manner that risks are appropriately identified and managed, Interaction with the various governance groups occurs as needed, significant financial, managerial, and operating information is accurate, reliable, and timely, resources are acquired economically, used efficiently, and protected adequately to achieve intended objectives, quality and continuous improvement are fostered in the entity’s control process and significant legislative or regulatory issues impacting the entity are recognized and addressed properly" (MINECOFIN, 2013). To carry out their functions, internal auditors’ independence and objectivity are mostly required.

In Rwanda, various initiatives have put in place to regulate the internal audit function, in public and government budget entities, internal audit function is conducted in accordance with Article of 12 of Organic Law no 37/2006 on States Finances and Property which requires the Ministry in charge of Finance to ensure internal audit arrangement in government and other budget agencies. The law is supplemented by the Ministerial Order no 02/09/10/ GP/A 12/2/2009 which outlines the regulatory framework of the conduct of internal audit in government and other budget agencies. Thus, all entities managing public resources including ministries, provinces, districts and other agencies that using government budget are required to ensure adequate internal audit arrangements by satisfying the statutory and fiduciary responsibilities of using public resources efficiently. Internal auditors in these entities are mandated to ensure an independent and systematic evaluation of risk management, control procedures and governance processes (MINECOFIN, Government of Rwanda Internal Auditing manual, 2011)

In private sector, the Law No 17/2018 of 13/04/ 2018 governing companies in Rwanda is silent about internal audit in private entities but it requires to have audited financial statement. The guiding code of corporate governance of private sector federation in Rwanda insisted that the auditors need to be independent and objective from the board and management (PSF, 2009) . In small and medium enterprises, depending on their scale of operations may not guarantee the employment of a qualified full-time internal auditor instead they opt to outsource that role to their external auditors or through collaboration with stakeholders and industry they are operating in to identify internal auditors who could render the service to them. Generally speaking, internal auditor's independence is required in every organization whether private or public for the purpose of enhancing good corporate governance of the organization.

Audit independence is viewed within the totality of corporate governance and the accountabilities of organizations to their stakeholders. This implicitly incorporates the public interest. This study is therefore undertaken a critical survey of existing analysis and concerns of the relationship between the organization and its internal auditors within the context of the totality of corporate governance in both government and public institution.

1.2 Problem Statement

"Auditor independence is a cornerstone of the auditing profession, a crucial element in the statutory corporate reporting process and a key prerequisite for the adding of value to an audited financial statement" (Mautz R. K and H.A Sharaf, 1961). Unlike the significance of auditor's independence, economic dependence resulting from the provision of non-audit services and personal relationships built between employer and employees have been alleged to contribute to the erosion of internal auditor independence.

According to Raja (Raja Tun Arshad Tun Uda, 2002) the increase of corporate scandals including WorldCom, Enron and Parmalat have ended to focus heavily on the issue of internal auditor independence. These financial scandals and corporate failures are proven to have a detrimental effect on the public's perception of auditors. The issues related to independence are threatening the survival of accounting firms of all sizes and it has the power to destroy the accounting profession as a whole.

It is therefore, important that auditors have to maintain their independence and ensure that they are providing the highest quality of auditing and assurance to ensure the credibility of financial information not only for the purpose of reducing the number of corporate scandals but most importantly the survival of their profession and the development of healthy financial and capital market (Bakar, December 2006).

Internal auditors are used to provide internal assurance and enhance controls to ensure transparency and accountability in public financial management. The Auditor General identified that there is still high wasteful, unauthorized, unsupported and fraudulent transactions with non compliance with State laws governing internal audit Processes in public entities like RSSB, REG, UR, WDA and WASAC and do recommend to strengthen corporate governance and internal controls and financial management in these entities (Biraro, 2017).
The increased recognition and critical role of internal auditors has resulted in the services of the Internal Audit Function being expanded from essentially an accounting-orientated service,

to a much broader management-orientated service. Recent demands by stakeholders of organizations for greater accountability from management, be it the board of directors, audit committee, executive management or other levels of management, will likely further augment the services of Internal Audit Functions. Despite all of the above, internal auditors in practice may be falling short of expectations (IIARF, 2007)

Institutional theory focuses on the process by which institutions attains a stable and durable state by establishing internal audit department as results of institutional pressures and balancing the interests of all shareholders in the institution (Al Twaijry Addulrahman, Guilliam David, 2003). The theory emphasize on the functions of Internal audit in the organization and its importance for effective and efficient operations of the activities of business.

Internal auditor in organization has a unique position with critical status of being employee with the responsibility to act as internal assurance provider, they report to senior management of the organization and they are expected to review the effectiveness of the management, which requires internal auditor to assess and monitor the various governance decisions made by senior management. On the other hand, internal auditor is employee of the organization under senior management who will be evaluated by the management especially in terms of employee performance appraisal. it is therefore evident that internal auditor can face considerable familiarity and social pressure threats stemming from such relationship with management.

Shareholders theory implies the need for supervisory functions as managers cannot be trusted to act in the interest of shareholder thus the need for the internal independent mechanism and control procedures to protect the company's fund on behalf of the owners as well as the management of the company (Michael B. Adams, 1991).

The previous researches done by Kirima N. NJOROGE on the factors affecting the performance of internal audit function in Government ministries in Kenya he tackled on the issue of independence of internal auditors and concluded internal auditor's authority and independence affect his / her performance, he further revealed that internal auditor must be independent of both personnel and operational activities of the organization (NJOROGE, 2016) in Rwanda, the independence of internal auditor is still a critical area of discussion, Mr HARELIMANA Jean Bosco Studied the effect of internal audit on budget management of local government of Rwanda and he found that good budget preparation and its execution in Musanze district is through good practice of internal auditors but he did not tackle on their independence (HARELIMANA, 2017), the other research of NIYONZIMA Theogene about internal audit practices and public financial management in Rwanda and Nigeria: bridging the transparency gap in public sector financial reporting he noted clearly that there is persistent weakness in internal control system of public resources, not complying with funds management rules, existence of fraudulent cases and misappropriation of fund in budget agencies and entities (Niyonzima Theogene, Applos N. Nwaobia, Grace O. Ogundago , 2016)

Based on the above researches which shows the gap on the issue of independence of the internal auditors in Rwanda and basing on shareholders theory which implies that there is a need for supervisory functions since managers of the entities cannot be trusted to act in the best interest of shareholder thus the need for the internal independent mechanism and control procedures to protect the company's fund on behalf of the owners as well as the management of the company (Michael B. Adams, 1991) without forgetting the general fact that internal auditors are recruited and employed by the leaders who determine and pay them salaries, approve their leave, appraise them for promotion and contribute to their development thus these leaders can influence the attitude and employment of internal auditors (Niyonzima Theogene, Applos N. Nwaobia, Grace O. Ogundago , 2016). The study is therefore undertaken as a critical survey to assess the factors impairing the independence of internal auditors within existing analysis and concerns of the relationship between the organization and its internal auditors within the context of the totality of corporate governance in both government and public institution.

1.3 Research Objectives

The general objective of this study is to assess the factors impairing the independence of internal auditors in Rwanda**.**

The specific objectives are delineated as follows:

i. To establish the degree of independence of internal auditors in public and private sector companies in Rwanda
ii. To assess the factors that impair the independence of internal auditors in both public sector and private in Rwanda
iii. To analyze the implications of independence of internal auditors on the corporate governance in Rwanda
iv. To identify the roles of audit committee in protecting the independence of internal auditors in Rwanda

1.4 Research questions

i. What is the current level of independence of internal auditors in public and private sector companies in Rwanda
ii. What are the factors that impair the independence of internal auditors in Rwanda
iii. What are the implications of independence of internal auditors on the corporate governance in Rwanda
iv. What are the roles of audit committee in protecting the independence of internal auditors

1. 5 Importance of the study

1.5.1 Government Institutions

Internal auditors in government institutions are cornerstones in safeguarding public fund and resources. The study on the independence of internal auditors will help the government institutions to establish measures to strengthen internal auditor's independence and improve the effective and independent operation of internal auditors. Internal audit function as an integral part of public financial management support the government to realize utmost fidelity and prudent use of public resources as well as bridging improvements in operations to cultivate trust to the citizens.

1.2.2 Private Institutions

The study of factors impairing the independence of internal auditors would help private institutions to improve their performance by enhancing transparency and accountability which is cornerstone of good corporate governance thus attract more investors.

1.5. 3 Policy Makers

The study on the independence of internal auditors can provide knowledge on the factors that impair the independence of internal auditors both in public and private sector and helps the policy makers to formulate policies that enhance the effective operations of internal audit and help to detect frauds in financial management to avoid misappropriation of public fund**.**

1.5.4 Academicians

The study can be used as a reference material to scholars who would wish to do a research in related areas and provide foundation for further research suggestions. It can also be used as tool to contribute to existing stock of knowledge on factors impairing independence of internal auditors

1.6. Presentation of the study

Chapter 1: Introduction

This chapter introduced the study by giving detailed background of the study and the related theories, it explained the problem statements and come out with 3 research objectives and 3 research questions of the topic. The chapter also highlighted the significance of the study to government, academicians and private sector.

Chapter II: Literature Review

The chapter reviews the prior researches of various scholars about the research objectives. The main objective of the study is to study the independence of internal auditors by establishing the current level of internal auditor independence in Rwanda. Specifically the literature review explored the factors impairing the independence of internal auditors in Rwanda and the implications of internal auditor's independence on corporate governance.

Chapter III: Research Methodology

The chapter focuses on research methodology which is used to conduct the study, it gives the brief discussion of the research methodology used, research design, study population, sample and sampling techniques, data collection, data analysis and data presentation methods to be used in the study

Chapter IV: Research Findings

This chapter presents findings and analysis of data collected from the field, the study found the level of internal auditor's independence in Rwanda, the factors impairing the internal auditor's independence and the implications of internal auditor's independence on corporate governance.

Chapter V: Discussion, Conclusion and Recommendation

The chapter presents the summary of the findings, discussion, conclusions and recommendations of the study

CHAPTER 2: LITERATURE REVIEW

2.1 Introduction

To date, there is a limited number of prior reviews of the internal audit independence literature. In 2006, the IIA commissioned the 2006 Global Common Body of Knowledge study, engaging researchers from around the world “to better understand the expanding scope of internal audit practice” (Cooper B.,p. Leung and G. wong, 2006). An initial phase of this study has resulted in three related literature reviews. Cooper in 2006 examined the internal auditing literature in the Asia Pacific region, Hass, Abdolmohammadi and Burnaby in 2006 studied the literature from the Americas, while Allegrini, D’Onza, Paape, Melville and Sarens 2006 performed a similar review of the European literature.
The purpose of these reviews was to document changes on the independence in internal audit as a result of changes in global business practices. The study found that there was conflict between internal auditors’ functions and audit oversight responsibilities and the provision of support to management and leads to undesirable ambiguity (Jenny Stewart, Nava Subramaniam, 2008). Three issues found from these interviews which impact on internal auditors’ ability to maintain their independence: the position in which they establish their own role and duties and the role of professional status; and the nature of the communications in which they engage (Jenny Stewart, Nava Subramaniam, 2008). The study also found that internal auditors function to report to senior management is perceived as being less independent in terms of being able to prevent fraudulent reporting compared to other departments of internal auditors that report solely to the audit committee.

The agency theory explained that it is in the best interest of the management to have a strong internal audit department in the organization as result of having an independent third party (internal auditors) to strengthen the credibility rendered by the agents (managers) to the principal (Shareholders) (Nagy, A.L and W.J Cenker, 2002, 2004). The internal audit unit is responsible to provide the independent evaluation of the true and accuracy of the agents' report whether they are in line with the wishes of the shareholders.

Recently internal audit is regarded as adding value to the organization (IIA, 1999) as an organization existing for the purpose of creating value to their owners, stakeholders and customers. The contribution of internal auditors makes an improvement in risk management process of the institution and in most of the cases organizational performance depends on its status

Organizational independence helps internal audit department to conduct work without interference by the entity under audit and the internal audit should have sufficient independence from those it is required to audit so that it can both conduct its work without interference and be seen to be able to do so (Belay, 2007) Thus Internal audit function in an organization should be given a priority and a high status in the organizational structure to allow effective communication with top management and maintain the its independence from management (Abudu Dawuda, Gariba Oswald Animaya, Samuel Erasmus Alana, 2015)

There is another unit in the organization which assists in guaranteeing internal auditor's independence which is audit committee and it is defined by IIA as committee of the board of directors responsible for oversight of the financial reporting process, selection of the independent auditor, and receipt of audit results both internal and external. The committee assists the board of directors to fulfill its corporate governance and overseeing responsibilities in relation to an entity’s financial reporting, internal control system, risk management system and internal and external audit functions. Its role is to provide advice and recommendations to the board within the scope of its terms of reference charter. (IIA, 1999). In 2004 Zain defined audit committee as an independent body which comprises of experts from various fields in the organization (Zain, M.M., N.P Subramaniam and J. Goodwin, 2004). The presence of audit committee in the organization is to protect and promote good corporate governance and independence of internal auditors.

The quality of audit committee is to ensure and safeguard the whole internal control system and protect the organizational independence of auditors for strong and effective management. (Yan, Z. Z. Jian and Z. Nan, 2004). Both internal auditors and audit committee has a reciprocal duty to strengthen each other by protecting their independence and ensuring whether audit recommendations are implemented by management. (Goodwin J. and T.Y Yeo, 2001)

In Rwanda, various initiatives have put in place to regulate the internal audit function, in public and government budget entities, internal audit function is conducted in accordance with Article of 12 of Organic Law no 37/2006 on States Finances and Property which requires the Ministry in charge of Finance to ensure internal audit arrangement in government and other budget agencies. The law is supplemented by the Ministerial Order no 02/09/10/ GP/A 12/2/2009 which outlines the regulatory framework of the conduct of internal audit in government and other budget agencies. Thus, all entities managing public resources including ministries, provinces, districts and other agencies that using government budget are required to ensure adequate internal audit arrangements by satisfying the statutory and fiduciary responsibilities of using public resources efficiently. Internal auditors in these entities are mandated to ensure an independent and systematic evaluation of risk management, control procedures and governance processes (MINECOFIN, 2011). The organic law N° 06/2009/OL of 21/12/2009 establishing general provisions governing Public Institutions, in its Article 11, it requires established Institution to have independent auditing organs which can be for internal and or external auditing to provide the assurance on the financial statement of the established institution (Primature, 2009)

In private sector, the Law No 17/2018 of 13/04/ 2018 governing companies in Rwanda is silent about internal audit in private entities but it requires them to have audited financial statements. The guiding code of corporate governance of private sector federation in Rwanda insisted that the auditors need to be independent and objective from the board and management (PSF, 2009) . In small and medium enterprises, depending on their scale of operations may not guarantee the employment of a qualified full-time internal auditor instead they opt to outsource that role to their external auditors or through collaboration with stakeholders and industry they are operating in to identify internal auditors who could render the service to them. Generally speaking, internal auditor's independence is required in every organization whether private or public for the purpose of enhancing good corporate governance of the organization

2.2 Internal Auditors Charter

The Institute of Internal Auditor in its 1000 Standard outlined the purpose of existence, powers and responsibilities and scope of the work of internal audit unit. The charter also briefs the organizational position of the unit, reporting relationship and nature of communication between the unit, management and board of directors.

The government of Rwanda through MINECOFIN empowers the internal audit department to ensure risk management procedures and governance protocols of public entities, compliance of governing rules and regulation, continuous substantive test, the accuracy of financial records and transactions and ethical standard within the entity (MINECOFIN, Government of Rwanda, Internal Audit Charter, 2013).

Article 12 of Organic Law No. 37/2006 of 12th September 2006 regarding State Finances and Property requires the Minister in charge of Finance "to ensure adequate internal audit Arrangements in Government". Chapter III of Ministerial Order N° 002/09/10/GPIA of 12/02/2009 sets out Regulations for Internal Control and Internal Audit and establishment of Internal audit units in Ministries, Districts and other government agencies (MDAs) (MINECOFIN, Government of Rwanda, Internal Audit Charter, 2013). These laws require internal auditors to conduct the following types of audits:

Financial Review: this audit its role is to provide reasonable on the correctness, entirety, legitimacy, and regularity of financial reports and transactions as well as the soundness of underlying internal controls and accounting records

Compliance Audit: compliance audit is aimed to verify adherence to laws, regulations, policies, standards, and prescribed procedures.

Performance Audit: this audit is responsible to assess the degree of economy, effectiveness and efficiency of the entity's operations. The emphasis is put on the assessment of both entity's inputs and outputs.

Systems Audit: systems audit is in charge to evaluate the design and operation of systems including internal control, financial controls, accounting systems, IT Systems

Forensic Audit: this type of audit is used to consider specific cases of suspected irregularities such as fraud, theft, embezzlement, or mismanagement of public funds.

IT Audits - IT audit is in charge of reviewing the computer-based systems focusing on data security, disaster recovery, and effective use of resources

2.3 Function of internal auditors

The relevance of various internal audit work activities is cornerstone of good corporate governance, strong enterprise risk management, company strategies and reviews, and employees ethics and integrity (Yass Alkafaji DBA CPA CFE, Shakir Hussain PhD, AshRaf Khallaf PhD, Munir A.Majdalawieh PhD, 2010). As per the IFRS, the internal audit is mainly focusing on operational audit and compliance review, audit of financial risk, fraud detection and investigation, and monitoring and evaluation of internal control system. The work requires internal auditors to understand and adapt the organizational culture and be strengthening with enough skills in order to match with the new internal activities. Internal audit play an important role regarding to the improvement of management and accountability in both financial and non financial matters of the institution. Therefore internal audit is a pivotal service to providing assurance to both board of directors, audit committee, chief executives, and stakeholders that the institution is governed effectively. (Australia, 2014)

Board of Directors and senior level of management are in charge of running the institution with the effective system and sound effective internal audit in the institution. Board of directors is responsible to be sure for maintaining the importance of internal audit to the highest understandable and respected level throughout the institution. Such responsibility cannot be delegated to third parties however its design, implementation and control can delegated to third parties or low level of management within the company (IIA, 2013)

In many institutions internal audit manager has a dual reporting arrangement: he is firstly accountable to audit committee on issues and matters discovered by the internal audit function in their working activities when reporting to another superior manager on administrative matters. on the other hand internal audit under a dual reporting relationship, they consider the potential for diminished objectivity on the part of the internal audit manager with respect to audits concerning the executive to whom he or she reports. (IIA, 2013)

Corporate governance both locally and worldwide are insisting the board of director to take the responsibility to ensure the that the institutions have effective internal control system. These new development have seen internal audit as a key in supporting both management of the institution and board of directors to have adequate internal control and form a strong integral part of institution's corporate governance structure.

Internal audit play significant role to assist both the board and audit committee in safeguarding sound corporate governance. As it is illustrated in the book of internal auditor's role in modern corporate governance by KPMG, internal audit is responsible of delivering:

- Objective evaluation of existing risk and internal control framework
- Examination and evaluation of financial and operating information within the organization
- Evaluation of risk management procedures of the organization
- Ensure the compliance with internal accounting policies
- Fraud prevention and whistle blowing
- Provide the internal assurance and accuracy of financial statement

Despite the attempt carrying out and meeting their mandate, internal auditors have anomalous position of reporting to senior management of the organization, while they are supposed to objectively assess and evaluate management on the effectiveness of the organization. (KPMG, 2016)

2.4 SARBANES OXLY ACT

This legislation came into force in 2002 and introduced major changes to the regulation of financial practice and corporate governance. It was named by Senator Paul Sarbanes and Representative Michael Oxley. its purpose was to protect investors by improving the accuracy and reliability of corporate disclosures made pursuant to the securities laws, and for other purposes and it was enacted by the Senate and House of Representatives of the United States of America in Congress assembled (Stephen R. Howe, Jr, Francis C. Mahoney, 2016)
The Act requires public companies to assess the effectiveness of internal control system and financial reporting for the purpose of preventing misstatements which are material to their

financial statements. it requires also companies to annually evaluate their financial internal controls and to disclose the results of that assessment to the public, the assessment should include whether there is any material weaknesses in controls that may not prevent or detect a material misstatement in the financial statements. (Stephen R. Howe, Jr, Francis C. Mahoney, 2016)

Regarding the independence of auditors, the Act requires that audits need to be performed by objective and independent auditors to support investor confidence in financial reporting. The Act strengthened auditor independence by several ways like restricting the types of non-audit services that auditors can render to the companies they are auditing, having strong audit committees capable of mitigating the risks that deviate the scope of services which could impair their independence (Stephen R. Howe, Jr, Francis C. Mahoney, 2016)

Sarbanes Oxly Act focused on strength of internal control system and the independence of the auditors in their work to provide the assurance on the financial statements of the audited companies and corporate disclosures, thus it is relevant to this study of independence of internal auditors in Rwanda, to investigate if the internal auditors in Rwanda are independent and the factors impairing their independence by looking overall implication of internal auditors independence to corporate governance.

2.5 Independence of Internal Auditors and Their Authority

Independence of internal audit and its authority are most important concept to enable the efficient function without interference and lead to effective feedback to management to continuously provide and enhance effective running of the organization. In 2013, Lawrence found that increased frequency of financial reporting and external audit failures motivated the profession of internal audit to get the autonomy in the institutions (Lawrence, 2013). In some countries where internal audit is highly valued, the functional reporting is moving from senior officers to specific committees set up under the board and report to the board of directors (Lawrence, 2013).

Auditing services provided by internal auditor cannot be achieved without the his /her independence. to lack the independence, internal auditors would fail to offer the expected services to the organization (Kabondi, 2012)

(Schneider, 2014) In his research found that, the role of internal auditors in achieving objectivity in the institution, is largely undermined by their economic status and lack of clear reward and compensation systems. For him, when sufficient reward is not given to internal auditors, activities of internal audit could be influenced by management thus affect their reports and may result with unreliable and biased reports to the institutions. On the other hand when internal auditors are clearly rewarded, they perform without any influence of the management and report freely any violation done by executives in management of the organization.

The weakness of internal controls may also results in fraud, financial reporting errors, and many other questionable financial transactions. Depending on the size of the institution, the need of qualified and experienced personnel in accounting and related areas is of uncritical in today's economy. In some countries, small and medium enterprises are facing difficulties to attract and pay well professional accountant mainly those with skills and experience with General Accepted Accounting Principles (GAAP) and auditing regulations. As result, senior management of the institutions can influence decisions of internal auditors and thus affect their performance and results in financial reporting risks like improper revenue recognition, illegal cash advances to officers, inflated costs on acquisition of equipment and inventory and many other transgression that have a significant impact on organizational viability (Cohen, J.R., Krishnmoorthy, G. & Wright, A, 2008)

2.6 Literature Theories

2. 6. 1 Agency Theory and Independence of Auditors

Agency theory attempts to explain the loss of value or wealth which occurs when one party (as an agent) acts for another (Janet L. Colbert, John S Jahera.Jr., 2011). This is situation is apparent in typical corporation where management (the agent) is hired to run the firm for shareholders. This agency relationship between managers and shareholders created the need for audit either internal or external (Janet L. Colbert, John S Jahera.Jr., 2011).

Separation of management and ownership of the company both in public or private creates ideal context for the operationalization of agency theory where shareholders are regarded as principal with the interest of achieving maximum interest from the company. the separation of ownership leads to conflict of interest and inability of the shareholders to monitor all actions and activities as results there is a need to employ certain sources of the information systems and control measures to minimize agency costs (Krishnan, G. V & Visvanathan. G, 2013).

Currently institutions put in place strong measures to control systems like internal auditing to promote efficiency in financial management, financial reporting and to monitor effectively the performance of employees and individual department. Internal auditors in the institutions are responsible to report to the board of directors or to the audit committee and are in charge of monitoring all activities of the firm to ensure that management is indeed acting with the accordance of the policies established by board of directors (Janet L. Colbert, John S Jahera.Jr., 2011)

2. 6. 2 Steward Theory

Unlike the agency theory, steward theory suggests that executive directors want to do efficient job thus be a good steward to corporate assets (Moche, 2014). Donaldson concluded that the structure of business will facilitate in the achievement of business goals if it provides clear, consistent role expectations and authorize and empower senior management (Donaldson, 1991). .

Davis and Schoolman argue that mechanisms of monitoring and bonding are not needed since under stewards theory there is no need to prevent agency losses, but they do not say that accountability mechanisms which are different from monitoring and bonding, are redundant while the theory focuses on structures that empowering rather than controlling and enforcing internal accountability mechanism to act as stewards (Davis J, Schoolman F, Donaldson L, 1997)

Stewardship theory is consistent with the independence of internal auditors since the board and managers of the institutions will act as responsible stewards of the assets they control and they will not fostering their own economic interest but they will act in best interest of the company thus the internal auditors will work independently.

2. 6. 3 Stakeholders theory

Stakeholder's theory firstly introduced in the 1970s as theory of firms' integrated accountability to their stakeholders (Salomon, 2010). Corporations have a direct and an indirect effect to the surroundings and the people involved in businesses with (Nordberg, 2011).

According to Solomon, many businesses due to their size cause prevalent impact on society and they should held accountable not only to their immediate direct stakeholders but also to the society at large.

The concept of accountability is a key foundation in stakeholder theory. The stakeholder theory is also connected to the concept of corporate social responsibility which is a form of self regulatory mechanism incorporated into the business model whereby businesses ascertain that they act in a socially responsible manner (Salomon, 2010).

However, recently attention to the role of corporations in society and communities at large has increased thus another, broader view has emerged and some hold that corporations should also be accountable to additional stakeholders that might be affected indirectly by company actions such as the government, trade unions and the community on the whole

2. 7 Independence of Internal auditors

The institute of internal auditors suggests "internal auditors could not be involved in any activities of the organization other than core activities of their charter like consulting services, risk management, induction process and ongoing professional development of the board of directors and executive management, internal control activities, corporate governance and compliance with new laws and regulations" (Auditors, 2004 b). Involvement of internal auditor in all these additional responsibilities to may create conflicts of interest thus affects the internal auditor's independence.

"Due to conflict of interest which may arise, board of directors and audit committee should empower internal auditor to perform additional services where they do not represent a conflict of interest or detract from its obligation to audit committee" (Ferreira, 2007).

Considering the above statements, it is presumed that accepting of consulting services or being a training facilitator to audit committee members may not be seen as a threat to independence of internal auditors and may not affect internal audit activities and objectivity. an individual internal auditor's independence however, might be compromised if he/ she "inappropriately or unintentionally assumes management responsibilities" especially when performing the consulting engagement on continuous basis thus it requires the rotation of internal audit staff to avoid this problem (Ferreira, 2007).

2.8 Factors impairing the independence of internal auditors

2. 8. 1 Limitation of the scope

Limitation of the scope may occur when the internal auditor is limited to audit one or more items and areas of financial statement, or he / she is restricted to access some financial transaction, financial records, assets or some operations of the company. Internal audit function is unique position in the organization with status as employee of the company with the duty to act like internal assurance provider. Thus it requires the internal auditor to assess, monitor and evaluate various governance and financial decisions made by senior management and to advise on the adequacy and effectiveness of internal control (Kimotho T. N., 2014). It is therefore possible that internal auditors can meet with considerable familiarity with social pressure issues from relationship with management. In some organizations, currently audit committees have assigned corporate governance role of coordinating and overseeing effective communication among management, internal audit and board of directors (Sarens G. de Beelde, I, 2006)

2. 8. 2 Reporting Structure

Internal audit is seen as the "eyes and ears of management" (Levitt, 1999), this is affected when management asks the assistance from internal auditor to provide to them assurance if: risks are early identified and managed, all processes of organization are effectively controlled and if organizational processes are effective and efficient (Kimotho T. N., 2014). it is therefore found that internal audit is a leadership position in some organizations where it is called to help the management in implementation process, assessment and conceptualizing risk management processes within the institution which means internal audit is actively playing the roles implementing corporate governance and controls instead of being asked to evaluate effectiveness of management control's practices. in most cases, internal audit is assigned management functions that may impair objectivity and independence of internal audit, there are other cases where internal auditor's independence is compromised by internal audit leaders by not reporting directly to audit committee or meet regularly with its audit committee members (Carey J.L & Doherty W.O, 1996). it is therefore suggested that internal auditors and their internal audit department have to be independent from management and report directly to audit committees.

2. 8. 3 Traditional role

By traditions, internal audit is seen as an activity of internal check and audit and be involved of walking around in the organization telling people what they were doing wrongly. however, its contribution to the organization was of major importance as it leads to improved accountability, effective risk management ethical with professional practices and improved quality of output which supported decision making and performance tracking of the organizations (Kevin, 1992).

Historically, internal auditor used to provide the assistance to management regarding the training of operational employees and participates in consulting services; this created the conflicts of interest between management and normal work of internal auditors. In contemporary management, "internal audit should not be restricted to financial matters alone, but also on issues like cost benefit analysis, matters of property and estate management, resource utilization, effectiveness of the management" (Monks, R. N. Minow, 2001)

Internal auditors are normally expected to recommend the management to improve the operations by focusing on the areas of weakness and deficiencies to run the company effectively and meeting various stakeholders' expectations. "Internal audit is also responsible of providing assurance to management and audit committee that internal control is effective and working as expected. Skills, knowledge and objectivity of competent internal auditors can significantly add value to organizational internal control system, risk management and governance processes. Similarly internal audit can provide assurance to other stakeholders like regulators, employees, providers of finances and shareholders" (IIARF, 2007).

2. 8. 4 Other factors impairing independence of internal auditors

The government of Rwanda through MINECOFIN has established the factors that can impair the independence of internal auditors especially the ones in public institutions like local government, central government, government agencies and public institutions. Among the factors highlighted, they include the following as stated by (MINECOFIN, Government of Rwanda Internal Audit Procedures Manual, 2011)

- Restriction of access to source of information
- Actions and persuasion designed to influence the conduct of audit, scope and content of audit report
- Previous employment in areas being audited unless reasonable time has elapsed since the auditor's involvement in the activity
- Personal relationship particularly with the staff of audited entity
- Personal bias against top management or other officer whether due to ideological differences or personal conflicts

- Financial interest by the internal auditors personally or indirectly with the family members
- Internal audit unit is organizationally located under operational unit department for example like under finance, or accounting department
- The reports of internal audits are subject to approval of top management of audited entity before being released
- Internal auditor's recruitment, performance appraisal, promotion and dismissal is under top management of the entity being audited
- Internal auditor is not readily accessible to the people charged with governance
- Internal auditor is unable to conduct audits and report findings, conclusions and recommendation without fear of reprisal
- Personal conflicts of interest
- resources limitation of the audit unit

2. 9 Internal Auditors professional competency and Independence

Internal auditors' technical competency and professionalism has critical importance to promote their independence. Both internal audit personnel and audit committee have to be qualified with enough skills and professional competency in order to execute effectively their duties and responsibilities. In 2009, Morgan in his research said "internal auditors need to be experienced with enough expertise" (Morgan, 2009). Internal audit is a unique position in organization that need the personnel with expertise, due diligence, integrity and independence to ensure their duties and responsibilities are discharged effectively (Goodwin J & Yeo .T. Y, 2012).

Lack of enough experience in the field of auditing when it is coupled with lack of knowledge, qualification and expertise on auditing areas challenges the independence of internal auditors. the audit profession requires internal auditors to have competency with professional qualification to effectively perform their duties independently (Goodwin J. and T.Y Yeo, 2001)

To detect fraud and errors in financials of the institution is a challenging task since perpetrators who are engaged in the fraudulent activities attempt all the way to cancel such behaviors. The institution needs to engage highly professional competent and independent internal auditors to be able to detect such frauds.

2. 10 Concept of Corporate governance and Internal Audit

Corporate governance has defined by the Organization for Economic Cooperation and Development (OECD) as “the system by which business corporations are directed and controlled. Its structure specifies the distribution of rights and responsibilities among different participants in the corporation, such as the board, managers, shareholders and other stakeholders, and spells out the rules and procedures for making decisions on corporate affairs" (OECD, 2004).

Sagwa also defined corporate governance as "the system of structuring, operating, and controlling the company with the view to achieve long term strategic goals to satisfy stakeholders and complying with the legal and regulatory requirements, apart from meeting environmental and local community needs" (Sagwa, 2015)

From the above definitions, it is therefore evident that corporate governance is focusing with management of the entity economically and meeting social goals of the entity through efficient use of resources with the accountability to align and have a balance with the individuals, corporations and societal interests.

Most of the organizations put in place the internal governance mechanisms to ensure the proper management of their companies because capital providers are not involved in control and daily running of the business thus there is a need to set up internal corporate governance mechanism to ensure that management acts in the best interests of the owners.

Organizational internal governance need to be independent to provide reasonable and absolute assurance to the reliability of financial reporting, effectiveness and efficient of operations and compliance with laws and regulations.

There is a correlation between internal auditing and corporate governance to enhance all economic decisions within the organization; this is because internal auditing and corporate governance have become a matter of a major concern in management of organizations

Internal auditors contribute to good corporate governance by providing best practices ideas about internal controls and risk management processes to the management and providing information about any fraudulent matter to the board by conducting annual audits and report the audit results to the responsible body of the organization and encouraging the audit committee to conduct periodic review to ensure that audit activities are consistent with leading practices (Leung . P, Cooper, Robertson P, 2004).

On the other hand, an effective corporate governance strengthens internal audit through provision of independent status of working environment and reviews the accomplishment of internal audit mandate. "Precisely, the audit committee is responsible to review with management and chief audit executive all plans, activities and organizational structure of the internal audit function; to ensure that there are no unjustified limitations and review the effectiveness of the internal audit function" (Internal Auditing: The practice of Modern Internal Auditing, 2003)

2. 10. 1 Principles of Corporate Governance

It is the responsibility of the owners of the corporations to hire competent directors and to ensure that they govern the corporation in manner consistent with their stewardship (Sagwa, 2015). Good governance is responsive to present and future needs of the organization to exercise prudence in policy setting and decision making in the best interest of all stakeholders.

Organization for Economic Cooperation and Development OECD presented the principles of good corporate governance as it has been revised and presented by Georgia Panagidi in his master thesis (Panagidi, 2017), internal auditors plays significant role in relation to good corporate governance as follows:

Participation

Participation of everyone in the organization including both men and women is a key cornerstone for good corporate governance. Such broad participation when built on freedom of association and speech with capabilities to participate constructively will enhance information exchange and transparency in decision making processes.

Rule of Law

Good corporate governance enhances fair and impartial enforcement of laws and regulations; it requires full protection of human rights especially to weak group of people and minorities. Impartial legal framework and independent judicial procedures with incorruptible law system enforcers determine practical strategies that are sustainable and effective in management of business organization. For the purpose of ensuring good corporate governance, internal audit shall work within the requirements of law and regulations.

Transparency

Transparency is built on the free flow of information, if the processes and information are directly accessible to those concerned with them, it helps to understand and make consultative decision making processes among public and all stakeholders. Relating to independence of internal auditors, transparency means decisions made by internal auditors and their enforcement are done by following all required rules and regulations. It also assumed that information given by internal audit is freely accessible and directly available to those to be affected by decisions from the information and their enforcement.

Responsiveness

Responsiveness means that institutions try to serve all stakeholders within a reasonable timeframe. Accountable management would take the organization on right path every time to respond to both economic and social pressures of the business. Internal audit is then required to allow for corrective actions and report inefficiencies of mismanagement.

Accountability

The principle of the accountability implies that, information sharing and transparency should promote governance structures and all decision makers are accountable to institutional stakeholders. In brief organization or institution must be accountable to those who will be affected by its actions. Internal auditors must be also accountable for their decisions. There must exist mechanisms and effective process to allow and enforce accountability in the organization or institutions.

Effectiveness and efficiency

Efficiency in terms of corporate governance involves sustainable use of natural resources by protecting environment. In corporate governance, the principle of effectiveness and efficiency call up for internal auditors to act with integrity and honesty. Lack of internal auditors' independence erode public trust and undermines a internal auditor's legitimacy and ability to work effectively.

Consensus orientation

The process of achieving consensus in decision making, involves serious consideration of every group member or stakeholders' considered opinion. It includes collaboration instead of compromise and all stakeholders are brought together until a convergent decision is made.

In this regard internal auditor have to know and understand the historical, cultural and social contexts of organization is working for the purpose of maintaining his or her independence and achieve the targeted objectives of providing internal assurance.

It is advisable to the institutions to strengthen the position of internal audit for maintaining and achieving principles of governance. However, to ensure sustainable corporate governance, strong actions need be taken in management of corporations to work towards this ideal and aiming of making it a reality. Internal Auditors are in good position for creating and promoting a risk management culture which is necessary to effectively implement good governance principles. To achieve this, internal auditor need to be independent in his / her daily working and be able to report all mismanagement to the responsible board.

2. 11 Roles of audit committee to promote and protect independence of internal auditors

Audit committee is responsible to safeguard the independence and objectivity of internal auditor in the organization. Its definition and meaning is wide depending on the author. Arthur Anderson defined audit committee as a committee of directors who are not charged with daily running of the business but with overseeing how the business is controlled, reported on and conducted (Anderson, 1922). In other words, it is a committee whose main role is to review the financial statement of the company. It acts as intermediary between the auditors whether internal or external, management and the board. Among many activities of the audit committee, they include nomination of the auditors, determination of audit scope, audit results, internal financial statement and reports and review of the financial information for publication (Tricker, 1978)

The audit committee itself to protect the independence of internal auditors, it needs to be independent in both mind and work. The mix of skills and competence will be the most determinants of audit committee members 'independence. Independence will allow committee members to be proud and objective in the decision making and challenge management decisions by evaluating overall performance with a free and objective perspective without any influence of the management (Burke, FM & Guy, 2002).

Ilse Ferreira in his thesis of the role of internal auditors in professional development of audit committee members (Ferreira, 2007), he highlighted the role of audit committee to protect the independence of internal auditors. For him the audit committee will promote the independence of internal auditors by:

- Organizing the regular meetings between internal auditors and audit committee members to raise the matters affecting their independence;
- Providing the independent forum to internal auditors to raise matters on weakness of the management
- reviewing the performance and operations of internal auditors thus increase their objectivity and independence in terms of the engagement;
- strengthening the objectivity and credibility of internal auditors by continuous governance process and control;
- assisting the internal auditor to discharge their responsibilities about the fraud prevention and other errors and irregularities within the organization;
- providing the forum for discussion and arbitration between management and internal auditors;
- assisting internal auditors to report serious deficiencies in the control environment and other management weaknesses;
- enhancing and preserving the stability and independence of internal auditors;
- enhancing effective communication between management and the board

2.12 Empirical Studies

Joe Christopher, Gerrit Sarens and Philomena Leunga conducted a critical analysis of independence of internal audit function in Australia and they found that potential threats to independence of internal auditor is by using him as training ground and stepping stone of succession plan to future manager of the organization, it is obviously understandable that internal auditor cannot act independently and objectively while he /she is dependent upon the management for future carrier move, they further found that the approval of audit budget by the senior management is another threat to independence of internal auditor because it can limit the scope of auditor, lastly they saw that the participation of senior management in the audit planning and determination of audit samples also threatens the internal auditor independence (Joe Christopper, GerrIt Sarens and Philomena Leung, 2009)**.**

Thuweba Ndunge Kimotho studied the factors affecting the independence of internal auditor in technical university of Mombasa and the study found that internal auditor being restricted to some financial records and specified user as threat to independence, he also found that reporting structure at the Technical University of Mombasa threatens the auditor independence where internal auditor reports to top management instead of reporting to audit committee (Kimotho T. N., Mombasa)

The previous researches done by Kirima N. NJOROGE on the factors affecting the performance of internal audit function in Government ministries in Kenya he tackled on the issue of independence of internal auditors and concluded internal auditor's authority and independence affect his / her performance, he further revealed that internal auditor must be independent of both personnel and operational activities of the organization (NJOROGE, 2016)

Jenny Goodwin and Teck Yeow Yeo conducted the research on the Two Factors Affecting Internal Audit Independence and Objectivity: Evidence from Singapore. They found that the transfer of internal auditor to other units within the organization and the length of stay in the position strictly affect their independence. They concluded by saying internal auditors who have a good working relationship and regular meeting with audit committee are more independent (Jenny Goodwin, Teck Yeow Yeo , 2001).

Taiwo Olufemi Asaolu, Samuel Adebayo Adedokun, and James Unam Monday they conducted a study on promoting good corporate governance through internal auditing functions: The experience from Nigeria and they found that independence of internal audit function, professional competence of internal auditor and quality of services related to risk management have a significant positive relationship and are veritable tools to the promotion of good corporate governance of public sector in Nigeria (Taiwo Olufemi Asaolu, Samuel Adebayo Adedokun, James Unam Monday, 2016)

Mr. HARELIMANA Jean Bosco Studied the effect of internal audit on budget management of local government of Rwanda and he found that asset management, good management control and staffing management with good budget preparation and its execution in Musanze district is through good practice of internal auditors. He concluded by confirming that there is a strong significant relationship correlation between internal audit and budget process and execution in Musanze district (HARELIMANA, 2017)

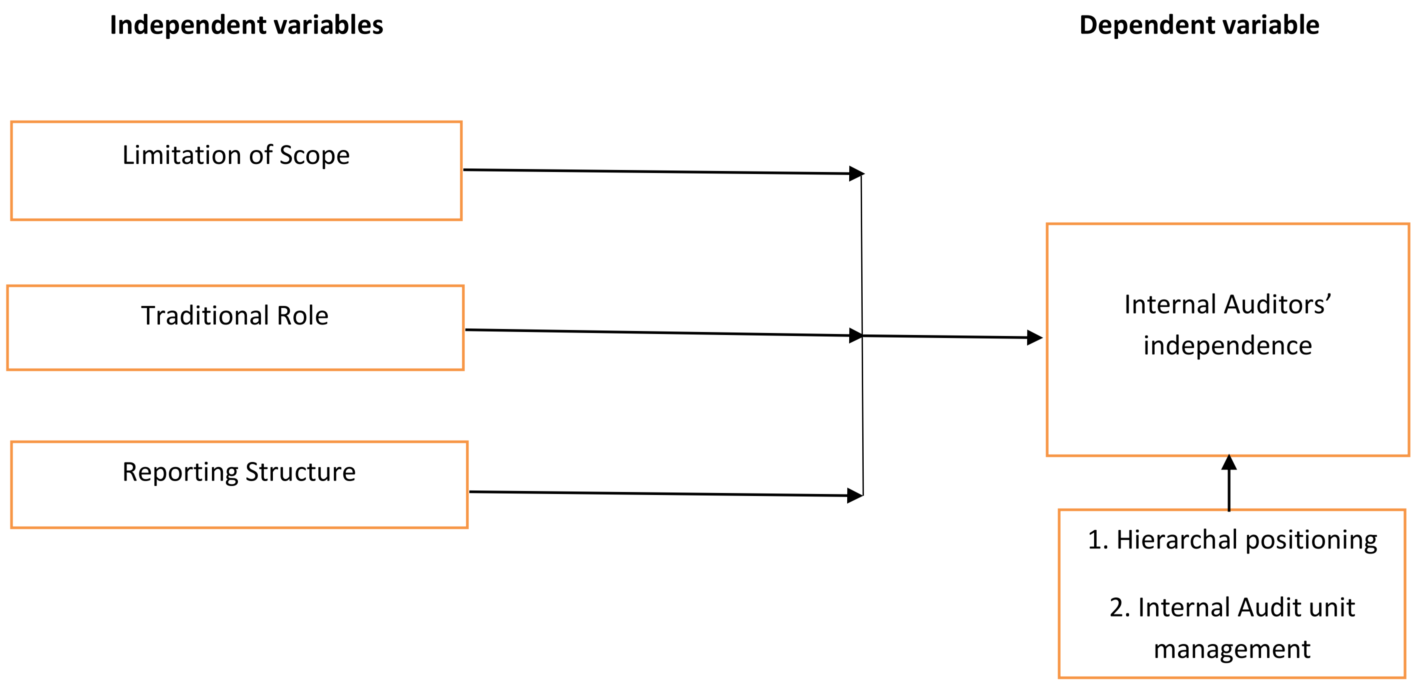
The research of NIYONZIMA Theogene about internal audit practices and public financial management in Rwanda and Nigeria: bridging the transparency gap in public sector financial reporting he noted clearly that there is persistent weakness in management of public resources, breaking rules and regulations of funds management, existence of fraudulent cases and misappropriation of assets in budget agencies and entities (Niyonzima Theogene, Applos N. Nwaobia, Grace O. Ogundago , 2016)

2.13 Research Gap

From the above mentioned reviews, it is found visible that the internal auditors need to be objective and independent in their operations, however, in above reviews, the authors have not reviewed the factors impairing the independence of internal auditors in Rwanda thus the necessity for the researcher to conduct the critical study on the factors impairing the independence of internal auditors in Rwanda and suggesting possible remedies to enhance its contribution on corporate governance by developing a conceptual framework the researcher believe on existing literatures and filling the identified gap of the factors impairing the independence of internal auditors in Rwanda and exploration of further study areas

2.14 Conceptual Framework

For the purpose of this study, the independent variables are the factors impairing the internal auditors' independence and dependent variable is the independence of internal auditors as depicted in the below chart



Source: Researcher 2018

2.14 Chapter Summary

The chapter reviewed researches done by different authors and scholars on the stated research objectives of the study. The main objective of the study was to investigate the factors impairing the independence of internal auditors in Rwanda. Specifically, literature review looked at to various initiatives and laws which regulate the internal auditors in Rwanda and establish the extent internal auditors 'independence in Rwanda, the literature also reviewed the factors that impair the independence of internal auditors and the implications of internal auditors' independence on corporate governance.

CHAPTER 3. RESEARCH METHODOLOGY

3.1 Research Design

The research study adopted the qualitative research methodology as it is relevant, useful and appropriate to the study of non observable events like attitudes, opinions, dispositions, perceptions and preferences (Glasow, 2005). For the purpose of this study the researcher is interested in the perceptions of the respondents on the factors impairing the independence of internal auditors

The study is designed to describe the characteristics and perceptions (being independent or not, factors impairing the independence) of the population (members of institute of internal auditors in Rwanda). The study is descriptive research in nature.

3.2 Study area

The research study has been conducted in members of institute of internal auditor's chapter of Rwanda. The institute of internal auditors' chapter of Rwanda is in charge of building the profession of internal auditing in Rwanda. The study focused on members of the institute wherever they are placed in the country.

3.3 Population

The research to be conducted, it needs to have a specific population and targeted group which he chooses the sample of population he or she is researching on. A research population is a well-defined collection of individuals or objects known to have similar characteristics. All individuals or objects within a certain population usually have a common, binding characteristic or trait .The study population of the research is internal auditors who are members of institute of internal auditor's chapter Rwanda located at Remera and they are 256 in numbers. The institute members are placed in both central and local government, private institutions and NGOs.

The research used both primary (new collected information directly) and secondary data (public or existing information collected by others) to get the right conclusion about the factors impairing the independence of internal auditors in Rwanda.

3.4 Sample design

Sampling involves selection of some element in a population a researcher wants to draw conclusion about the whole population and population group on the other side is the subject on which measurements are obtained, it is the unity of study. For the purpose of this research, the unit of study is the internal auditors who are members of the institute of internal auditors institute chapter of Rwanda

3. 4. 1 Sampling Frame

Sampling frame is the list of elements from which sample is being drawn. It is also an objective list of the population from which a researcher can make a selection. The frame was obtained from the institute of internal auditors' chapter of Rwanda**.** The list of internal auditors' members of the institute is a sampling frame.

3.4.2 Sampling techniques

Good sampling techniques allow the researcher to get data at greater accuracy with low cost and greater speed of data collection depending on the availability of the population elements.

Simple random sampling is the best for this study to select individual members to be subjected to the study as it ensures that every member of the population has accorded an equal chance of being included in the study thus eliminates bias.

3.4.3 Sample Size

Sample size is defined as the count of the individual samples or observations in any statistical setting, such as a scientific experiment or a public opinion survey. It measures the number of individual samples measured or observations used in a survey or experiment.

The total lists of internal auditors who are members of the institute are 254 grouped in public institutions, central governments and private institutions and local government.

Then, the sample size is determined using Taro Yamane below equation

$$n = \frac{N}{1 + N(e^2)}$$

Where,

n = Sample Size

N = Population size

e = Standard error

The study population in public sector was 183 and 74 in private organization then by applying the formula, the sample size in public organizations become 124 in public and 62 in private.

Where n is the sample size, N is the population size, and e is the confidence level which is determined as 95%. By applying the above formula 156 internal auditors were determined to be surveyed

3.5 Research instruments

Research instruments are the tools developed by the researcher for the purpose of achieving the research objectives when conducting a research study (Cooper, Donald R, Pamella, Schindler S, 2003). They are used in data collection and their analysis. to get the valuable data in this research, the researcher adopted questionnaire as research instrument developed from literature review as it is the suitable tool to collect the data relating to the study.

3. 6. Data Sources

3.6.1 Primary Data

Primary data involves the data collected by research by first hand sources by using methods like questionnaires, surveys, interviews and experiments (Cooper, Donald R, Pamella, Schindler S, 2003).For the purpose of this study, questionnaire is preferred to collect primary data since it gives the respondents freedom to give answers to the questions. It also encourages respondents to give open and straight answers to the sensitive questions to help the researcher to acquire important and needed information. This questionnaire involves a list of written questions addressed to internal auditors for their views on the research questions.

The questionnaire is designed with closed-ended questions and it is composed of five sections as follows: Background information of the respondents; perception of the respondents on the current level of internal auditors 'independence in Rwanda, factors impairing the independence of internal auditors, the implications of internal auditors independence on corporate governance and roles of audit committee to enhance and protect the independence of internal auditors.

The questionnaire was developed and taken to supervisor for approval and it was taken to experts in the field of auditing for review the measurements and evaluation they approved it for its face and content validity, after all pilot test was made to 15 people who were not among the sampled population.

Before respondents start to answer the questions, the researcher has taken time to explain and to give clarifications to the questionnaire. The questionnaire was in Likert scale and composed of the following: 1=strongly agree (SA), 2= agree (A), 3= neutral (N), 4= disagree (D) and 5=strongly disagree (SD). The researcher will use the below interpretation scale

3.6. 2. Secondary Data

Secondary data involves the data gathered from previous studies, surveys and experiments that have been done by other researchers, they refer to data which have been already collected and analyzed by someone else. In this research, the researcher used General auditor's report, journals, and internet to conceptualize the study with previous studies.

3.7 Validity and Reliability of the Instruments

Validity refers to the appropriateness of the degree to which a study accurately reflects or assesses specific concept that researcher is attempting to measure (Cooper, Donald R, Pamella, Schindler S, 2003). It is also the degree to which results obtained from the analysis of data actually represent the phenomenon under study. To enhance the instrument's validity, the researcher sought expert opinion by consulting the study's supervisor with respect to content validity. After the final confirmation, a pilot test was done by distributing the questionnaires among 10 respondents, which ensured that the questionnaire is appropriate and the aspects investigated was generally understood. This is as suggested by Coopers & Bob (2008), and based on the descriptive research design that a pilot group was range from 5 – 10 respondents

On the other hand, the reliability refers to the precision of the measurement but it is not concerned with potential bias. Reliability is also seen as the degree to which a test is free from measurement errors, since the more measurement errors occur the less reliable the test (Cooper B.,p. Leung and G. wong, 2006). Reliability is increased by including many similar items on a measure, by testing a diverse sample of individuals and by using uniform testing procedures. (Mohsen Tavakol, Reg Dennick, 2011). One factor that might affect the reliability of the study is the respondents‟ lack of knowledge.

Reliability of the data collection instrument was tested using Cronbach's Alpha coefficient. The reliability is expressed as a coefficient between 0 and 1.00. The higher the coefficient, the more reliable is the test. Reliability test as provided by SPSS version 20 found that Cronbach Alpha is 0.781 which is above of 0.5 suggested values (Amadeo K. & Kimberly M, 2000) , thus basing on the reliability test of scales used, the study is reliable.

3.8 Statistical Treatment of Data

The research data will be collected and analyzed basing on research objectives and by using comparative research design. The data will be analyzed by using Statistical Package for Social Sciences (SPSS) version 20 for descriptive data and the results obtained will be presented in form of tables. In addition to descriptive statistics, the researcher was used multiple regression model and diagnostic tests associated with the test of Spearman correlation to examine the factors impairing the independence of internal auditors in Rwanda. Finally data will be analyzed by using mean, standard deviation and coefficient of correlation.

Table 3. 1: Evaluation of mean

Mean	Evaluation
[1.00 - 1.80[	Very strong
[1.80 - 2.60[	Strong
[2.60 - 3.40[	Moderate
[3.40 - 4.20[	Weak
[4.20 - 5.00[	Very weak

Source: *Aggresti (2009)*

The table 3.1 explains the degree agreement with the asked statement basing on the mean, the lesser the mean, the stronger the agreement, the higher the mean, the weaker the agreement

Table 3.2: Evaluation of Standard Deviation

Standard deviation	Evaluation
$\sigma > 0.5$	Heterogeneity
$\sigma =0.5$	Moderate
$\sigma < 0.5$	Homogeneity

Source: *(Franklin, 2000)*

The standard model to analyze the data will be used by adopted Ordinary Least Squares and expressed as follow:

$$Y = \beta_0 + \beta' X_{it} + \varepsilon_t$$

where,

Y is independence of internal auditors, β0 is initial level of internal auditors independence , Xit is the vector of regresses', β' is the vector of coefficients unknown to be estimated including other variables and it ε_t is a random disturbance term which is assumed to satisfy the usual properties of mean zero

and constant variance

The study has 2 main variables dependent and independent variables, dependent variables is the independence of internal auditors which measured by organizational positioning of internal auditors, management of internal auditors by including roles of senior management in audit planning, staff movement and budgets while the impairing factors are the independent variables and measured by reporting structures, limitation of the scope, limited access to financial matters and traditional role of internal auditors.

Non-linear OLS regression is a best technical tool used to analyze and estimating conditional mean functions by minimizing sums of squared errors (Gujarati D. 2004)

The developed Model expresses the relationship between variables is

$$Y = \beta_0 + \beta_1 REP\ STR + \beta_2 LIM\ SCP + \beta_3 TRAD\ RL + \varepsilon_t$$

Where:

Y: Is dependent variable (Independence of internal auditors)

β0: is the regression constant

β1, β2, β3 are the coefficient of independent variables

REP STR: Reporting structure

LIM SCP: Limitation of Scope

TRAD RL: Traditional role of internal auditor

ε: is an error term

3.9 Correlation

In statistics, it is the extent of correspondence between the ordering of two variables. Correlation is positive or direct when two variables move in the same direction and negative or inverse when they move in opposite directions. It represents how closely two variables co-vary; it can vary from -1 (perfect negative correlation) through 0 (no correlation) to +1 (perfect positive correlation) (Morgan, P & Berrett, D.M, 2006). This is shown through the finding of the correlation coefficient; that is concerned with the collection and interpretation of quantitative data and the use of probability theory.

Table 2.3: Evaluation of correlation

Correlation coefficient (positive or negative)	Label/positive or negative
$r=1$	Perfect linear correlation
$0.9 < r < 1$	Positive strong correlation
$0.7 < r < 0.9$	Positive high correlation
$0.5 < r < 0.7$	Positive moderate correlation
$0 < r < 0.5$	Weak correlation
$r=0$	No relationship
$-1 < r = < 0$	Negative relationship

Source: *(Saunders & Pascal, 1999*).

3.10 Ethical consideration

Ethics in research refers to the responsibility of the researcher to conduct research honestly, and respectful to all concerned individuals who may be affected by the research studies. In this study, the researcher considered various set of ethical guidelines that helped him to make proper decisions and proper behavior while collecting needed data from the field. This study was done with proper respect of respondents and guided by moral expectations and keeping respondents' anonymity.

3.11 Limitations of the study

The research targeted internal auditors who are members of the institute of internal auditors in Rwanda and because it is not mandatory that every internal auditor in Rwanda has to be a member of the institute, it is therefore possible that there is meaningful population left not included in the study population.

During the interpretation of the research findings, The researcher did not ask to the respondents the direct questions on the independence, factors impairing the independence, implication of internal auditors independence to corporate governance and role of audit committee to protect the independence of internal auditors, rather the researched preferred to ask basing on the series of the determining of internal auditors independence as it is established by different scholars and international standards of internal auditing and have given equal chance in the analysis though is reasonably assumed that some determinants had strong influences than o

CHAPTER 4: RESULTS FINDINGS, DATA ANALYSIS AND INTERPRETATION

4.1. Introduction

The chapter focuses on the results and findings of the data collected from the field. It established the factors impairing the independence of internal auditors in public and private organizations in Rwanda. The data was collected from the respondents exclusively by using of questionnaires and it was designed to cover all research questions of the study.

Table 4.1: Respondents samples

Description of population	Public	private	Total Number	Percentage to total
Population	183	74	257	100%
Sample size	124	62	186	72.4%
Respondent rate	88	54	142	76.3%
Non respondents	36	8	14	7.5%

Source: SPSS Version 20

The study targeted 186 respondents and one respondent was given one questionnaire and among 186 questionnaires administered only 142 questionnaires were filled and 44 questionnaires were not returned back to the researcher thus response rate was at 76% (142/186) which is enough for the researcher to study the factors impairing the independence of internal auditors in Rwanda.

4.2 Profile of the respondents

Regarding the qualification 5 (3.5%) of the respondents have diploma 107 (75.4 %) have bachelor and 30 (20.1%) of the respondents have masters

Table 4.2: Distribution of the respondents by Gender

Gender	Number of Respondents	Percentage to Total
Male	93	65.5
Female	49	35.5
Total	142	100

Source: Primary Data

Table 4.2 shows that 65.5% (93) of the respondents were male while 34.5% (49) were female. These shows that female are still not many in the internal audit profession as the males are but all genders have significantly represented in the study.

Table 4.3: Distribution of the respondents by age

Range of ages	Number of Respondents	Percentage to Total
20-29	56	39.4
30-39	64	45.1
40-49	18	12.7
50-59	3	2.1
Total	142	100.0

Source: Primary Data

As shown by table 4.3, 56 (39.1 %) of the respondents were between 20 - 29 ages, 64 (45.1 %) between 30 - 39 18 (12.7 %) between 40 - 49 ages and 3 (2.1%) were above 50 years. This showed that the majority of the respondents fall between 30 -39 (45.1%) and between 20 - 29 (39.1%) which shows that the responses came from all age groups thus reliable information for the research study was found.

Table 4.4: Distribution of the Respondent by Level of Education

Level of Education	Number of Respondents	Percentage to Total
Diploma	5	3.5
Bachelor	107	75.4
Master	30	21.1
Total	142	100.0

Source SPSS VERSION 20

Illustration of table 4.4 shows that 5 (3.5%) of the respondents have diploma 107 (75.4 %) have bachelor and 30 (20.1%) of the respondents have masters. The majority of the respondents have a bachelors degree 107 (75.4%) . This means that the respondents had equipped with relevant knowledge and qualification to provide their views on the factors impairing the independence of internal auditors.

Table 4.5: Distribution of the respondents by Level of experience

Level of Experience		Number of Respondents	Percentage to Total
	Less than 5 Years	55	38.7
	6 - 10 Years	62	38.7%
	11 - 15 Years	24	16.9
	Total	142	100.0

Source: Primary Data

As shown in table 4.5, 55 (38.7%) of the respondents had less than 5 years of experience, 63 (43.6) had between 6 and 10 years of experience and 24 (16.5%) of the respondents have more than 10 years of experience. This means that the respondents were in the organization long enough to give their views on the factors impairing the independence of internal auditors in public and private institutions in Rwanda thus reliable information for the study have been provided.

Table 4.6: Distribution of the respondents by types of Organization

Type of Organization		Number of Respondents	Percentage to Total
Valid	Public	88	62.0
	Private	54	38.0
	Total	142	100.0

Source: Primary Data

Table 4.6 shows that 88 (62.4 %) of the respondents were in public sector while 54 (38%) of the respondents are in private sector. This shows that all types of the organization were represented in the study thus relevant and representative information from different organization has been captured in the study.

Table 4.7: Distribution of the Respondents by Size of the Organization

Size of the Organization	Number of Respondents	Percentage to Total
Large	85	59.9
Medium	57	40.1
Total	142	100.0

Source: Primary Data

Table 4.7 shows that 83 (58.5%) of the respondents worked in the large organization and 57 (40.1%) worked in medium organizations, there was no respondents in small organization and this is because it is difficult to small organization to bear the cost of internal audit functions

4.3 Current level of internal auditor's independence

The table below is composed by the elements determining the current level of internal auditors' independence and analyzed by using descriptive statistics of mean and standard deviation to reach overall conclusion on the current level of internal auditors' independence in Rwanda

Table 4.8: Current level of internal auditor's independence

Determinant of Internal auditors independence	Mean	Interpretation	Std. Deviation	Interpretation
To whom does you as internal auditor report functionally	3.13	Moderate	1.355	Heterogeneity
Hierarchical position of internal auditor in the organization	2.51	Strong	.460	Homogeneity
Our organization has specific budget for internal audit function	1.14	Very strong	.485	Homogeneity
Budget approval	3.88	Weak	1.648	Heterogeneity
Number of years internal auditor stays in the function within organization	3.13	Moderate	1.262	Heterogeneity
Colleagues within organization perceive internal auditor as their partner	3.61	Weak	1.438	Heterogeneity
It is common to move internal auditor to other functions within organization	2.03	Strong	.399	Homogeneity
Does your organization have a functioning audit committee	1.10	Very Strong	.299	Homogeneity
Empowerment for appointment, evaluation, promotion and dismiss internal auditor in the organization	3.59	Weak	1.564	Heterogeneity
Members of audit committee have a background in accounting and technical expert to understand work of internal auditor	2.45	Strong	.490	Homogeneity
Overall mean	**2.687**	**Moderate**	**1.07**	**Heterogeneity**

Source: Source: Primary data

As shown on the above table 4.8 Internal auditors functional reporting had a moderate mean of 3.13 with standard deviation of 1.355, hierarchical position of internal auditors in organization had a strong mean of 2.51 with 0.460 standard deviation , the question of having specific budget for internal audit function had a mean of 1.14 with standard deviation of 0.485, the approval of budget had a mean of 3.88 with standard deviation of 1.648, the number of years internal auditor stays within the position in the organization had a mean of 2.13 with 1.262 of standard deviation, participation of management in audit planning had a mean of 1.99 with 1.108 standard deviation, colleagues within the organization perceive internal auditors as their partner in efficient management of the company had a mean of 3.61 with 1.438 standard deviation and finally it was found that to move the internal auditor to other functions within the organization had a mean of 2.03 with 1.399 standard deviation.

The overall mean of the current level of internal auditors' independence is 2.687 and 1.07 of standard deviation thus moderate mean with heterogeneity. This significantly shows that there is no enough independence of internal auditors in their operation specifically on the issues related to reporting structures; internal audit unit budget and number of year's internal auditor stayed in the position and colleagues perceive internal auditors in their organization.

The respondents strongly supported the statements and the findings are consistent with those of Joe Christopher, Philemena Leung and Gerriti Sarens who conducted the study on critical analysis of independence of internal auditors Evidence from Australia in 2009 and found that the internal auditors to functionally report to audit committee and positioning the internal audit function at corporate level provide the independence of internal auditors (Joe Christopper, GerrIt Sarens and Philomena Leung, 2009). However the fact that majority of the respondents agreed that number of years internal auditor stays within organization is between 2 and 4 years and it is common to move internal auditor to other functions within organization,

It is found that there are the independence threats and are relevant to the findings of Jenny Goodwin and Teck Yeow Yeo who did the study on the two factors affecting internal audit independence and objectivity: Evidence from Singapore and found that the internal auditor wish to progress their career in the position of internal auditor and moving them to other positions impair their independence (Jenny Goodwin, Teck Yeow Yeo , 2001).

4.4 Factors impairing the independence of internal auditors

The factors impairing the independence of internal auditors as illustrated in below table have been analyzed by use of descriptive statistics of mean and standard deviation to come up with overall conclusions on the factors impairing the independence of internal auditors in Rwanda

Table 4.9: Factors impairing the independence of internal auditors

Factors impairing the independence of internal auditors	**Mean**	**Interpretation**	**Std. Deviation**	**Interpretation**
There is effective communication between internal auditors and board of directors	2.41	Strong	1.32	Heterogeneity
Familiarity and social pressure between auditors and management	2.09	Strong	1.178	Heterogeneity
Internal auditor assumes unintentionally management responsibilities and consulting activities	1.96	Strong	1.101	Heterogeneity
Reports of internal auditor are subject to prior approval of Top management before being released	2.09	Strong	1.331	Heterogeneity
Internal auditor is not readily accessible to the board of directors which is in charge of governance	2.33	Strong	1.341	Heterogeneity
Internal auditor is unable to audit and report findings and opinions without fear of reprisal	2.29	Strong	1.377	Heterogeneity
Recruitment, promotion, performance appraisal and dismissal of internal auditor is under top management of the organization	2.08	Strong	1.221	Heterogeneity
Management interferes internal auditor to determine audits samples	1.62	Very Strong	.416	Homogeneity
Sometimes there is unreasonable deadlines to internal auditor to complete the audit test and issue the report	1.33	Very Strong	.405	Homogeneity
Internal auditor is allowed to conduct training of other staff in the organization	1.83	Strong	.302	Homogeneity
Internal auditor is restricted to some financial matters	1.54	Very Strong	.449	Homogeneity
Overall Mean	**1.915**	**Strong**	**0.9491**	**Homogeneity**

Source: Source: Primary data

As shown by this table, familiarity and social pressure as threat to independence of internal auditors had a mean of 2.09 with 1.178 standard deviation, Undertaking of management responsibilities and consulting activities by internal auditor had a mean of 1.96 and 1.101 standard deviation, prior approval of internal auditors reports by top management before approval had a mean of 20.09 and 1.331 of standard deviation, interference of management in determining audit samples had a mean of 1.62 and 1.116 of standard deviation, unreasonable deadlines to internal auditor to complete the audit test had a mean of 1.33 and 1.102 standard deviation, accessibility by internal auditor to board of directors had a mean of 2.33 and 1.331 of standard deviation, allowing internal auditor to provide training to other staff of the organization had a mean of 1.83 and 1.102 of standard deviation and finally internal auditors being restricted to some financial matters had a mean of 1.54 and 1.049 of standard deviation. The respondents confirmed that the statements provided meet with the researcher's expectation on the factors affecting the internal auditor's independence. It is also similar to the best practice of institute of internal auditors which found that the involvement of internal auditor in management activities like consulting and providing training to other staff of the organization is threat to their independence (Ferreira, 2007).

The Grand mean on the factors impairing the independence of internal auditors is 1.915 with 1.621 thus strong mean with homogeneity. This shows that the moderate independence of internal auditors in first research question is significantly attributed to the strong mean of impairing factors.

From literature review, it is noted that when the internal auditor has limited scope and restricted access to some financial matters and operations of the organization as raised by Kimotho who did the study on the factors affecting the internal auditors independence (Kimotho T. N., 2014).

Senior management being have significant impact on the recruitment, promotion and dismiss internal auditor is attributable to impairing factor impairing as noted by NIYONZIMA Theogene and their partners on the study of internal audit practices and public financial management in Rwanda and Nigeria: bridging the transparency gap in public sector financial reporting (Niyonzima Theogene, Applos N. Nwaobia, Grace O. Ogundago , 2016)

4.5 Implications of internal auditor's independence on corporate governance

Table 4.10 below summarized the implications of independence of internal auditors on corporate governance.

Table 3.10: Implications of internal auditors' independence on corporate governance

Implications of internal auditors independence on corporate governance	**Mean**	**Interpretation**	**Std. Deviation**	**Interpretation**
Independence of internal auditors enhance discipline	1.49	Strong	.873	Heterogeneity
Independence of internal auditors enhance accountability	1.64	Strong	.486	Homogeneity
Independence of internal auditors improves transparency	1.54	Strong	.456	Homogeneity
Independence of internal auditors allows fairness	1.44	Strong	.748	Heterogeneity
Independence of internal auditors enhance effectiveness and efficiency	1.54	Strong	.912	Heterogeneity
Independence of internal auditors allows participation in decision making process	1.40	Strong	.754	Heterogeneity
Independence of internal auditors allows consensus decision making	1.34	Strong	.752	Heterogeneity
Independence of internal auditors enhances rule of law	1.58	Strong	.869	Heterogeneity
Independence of internal auditors enhances responsiveness	1.44	Strong	.830	Heterogeneity
Independence of internal auditors enhances corporate social responsibility	1.37	Strong	.457	Homogeneity
Overall Mean	**1.4884**	**Very strong**	**.7147**	**Heterogeneity**

Source: Source: Primary data

The table 4.10 illustrates that the overall mean on the implications of internal auditors' independence on corporate governance is 1.4884 with standard deviation 0.7147 thus very strong mean and heterogeneity of standard deviation. This implies that greater number of the respondents very strongly supported the statements that independence of internal auditors would significantly lead to good corporate governance. Internal auditor to enhance discipline had a mean of 1.49 and 0.873 standard deviation, enhancement of accountability through internal auditors' independence had a mean of 1.64 with 0.486 standard deviation, and independence of internal auditor to improve the transparency had a mean of 1.54 and 0.912 standard deviation.

This showed that majority the respondents accepted the statements that independence of internal auditors enhances discipline, accountability and improves transparency. These results are consistent to the research done by (Mahd Ali Al- jabali, Osama Abdalmanam and Khalifeh N. Ziadat, 2011) on the study of internal audit and its role on corporate governance and they revealed that independence of internal auditor creates value to the organization through accountability and transparency.

Internal auditor's independence to allow fairness had a mean of 1.44 and 0.748 standard deviation, enhancement of efficiency and effectiveness through independence of internal auditor had a mean of 1.54 and 0.912 standard deviation, independence of internal auditors to enhance participation in decision making process had a mean of 1.40 and standard deviation of 0.754. The majority of the respondents agreed with the statements that independence of internal auditors facilitate participation in decision making process and enhance efficiency and effectiveness in all operations of the organization. These findings are similar to the findings of research done by Narcisa, Lucan (Cioban) Alexandra on The Role and Implications of Internal Audit in Corporate Governance (Alexandra, 2017) where he confirmed that independence of internal auditors is a pillar of promoting organizational value and ensuring organizational performance management efficiently and effectively.

Independence of internal auditors to enhance rule of law had a mean of 1.58 and 0.869 standard deviation, enhancement of responsiveness when internal auditor is independent had a mean of 1.44 and 0.830 standard deviation and finally the independence of internal auditors to enhance corporate social responsibility had a mean of 1.37 with 0.857 standard deviation. The respondents supported the statements that independence of internal auditors enhance responsiveness and corporate social responsibility. The findings are exactly similar to the survey done by Young Sang Kim on the corporate social responsibility and internal audit effectiveness and revealed that effective internal audit is responsive to stakeholder and maximize its value by benefiting the reputational gain of being socially responsible and ethical consideration of the community (Young Sang Kim, Hyun-Dong Kim, 2017)

4.6 Roles of Audit committee to protect and promote independence of internal auditors

Audit committee is responsible to enhance auditors' independence as summarized in below table 4.11 and analyzed by descriptive statistics to come up with overall conclusion.

Table 4.11: Role of audit committee to protect the independence of internal auditors

Role of audit committee in promotion and protection of internal auditors independence	**Mean**	**Interpretation**	**Std. Deviation**	**Interpretation**
Inviting internal auditor (either head of internal auditor or individual internal auditor) to management meetings	1.27	Very strong	.609	Heterogeneity
There is a regular meeting between internal auditor (either head of internal auditor or individual internal auditor) and audit committee	1.47	Very Strong	.470	Homogeneity
The audit committee participates and gives input to internal audit planning function	1.42	Very Strong	.698	Heterogeneity
members of audit committee are independent to management	1.41	Very strong	.473	Homogeneity
Audit committee provides independent forum to internal auditors to raise matters on weakness of the management	1.30	Very strong	.772	Heterogeneity
Overall Mean	**1.374**	**Very strong**	**0.6026**	**Heterogeneity**

Source: Primary data

As shown by table 4.11, the overall mean of role of audit committee on the promotion and protection of internal auditors' independence is 1.374 with 0.6026 standard deviation thus very strong and heterogeneity. It means a functioning audit committee significantly can enhance and protect independence of internal auditors.

Organizing a regular meeting with between internal auditors and audit committee had a mean of 1.47 And 0.770 of standard deviation, audit committee to give input and participate in internal audit planning had a mean of 1.42 and 0.698 of standard deviation, this means audit committee is readily accessible to internal auditors and helps them to plan for internal audit functions. The findings are similar to the study of Ignance de Beelde about the interaction of internal auditors and audit committee: an analysis of expectations and perception where he revealed the involvement of audit committee in audit planning strengthens the work of the internal audit function comparing to the input given by management. He also found that the independent status of internal audit as well as the audit committee with the same growing monitoring responsibilities strengthens the internal auditor's independence on the one hand; and provides on the other hand audit committee the necessary support to meet their responsibilities (Beelde, 2006)

Audit committee to provide independent forum to internal auditors to raise matters on weakness of the management had a mean of 1.30 and 0.772 thus it is a protective measure direct to allow direct contact with the audit committee to raise the matters of management. The finding is similar to the work of Kennedy Sakaya Barasa who studied the role of audit committee on corporate governance and revealed that audit committee is an oversight organ in the organization with independent autonomy and assist internal auditors to be protected from the management influences through regular meeting and independent meetings with internal auditors (Barasa, 2015)

4.7 Regression Analysis

A regression analysis was used to determine how reporting structures, limitation in scope and traditional role of internal auditors relate to the independence of internal auditors. SPSS was used to enter, code and analyze the measurement of multiple regression of this study.

Table 4.12: Model Summary

Equation 1	R	0.868
	R Square	0.752
	Adjusted R Square	0.731
	Std. Error of the Estimate	0.098

The table 4.12 shows a summary of regression model between independent variables: reporting structures, limitation in scope, and traditional role of internal auditors and the independence of internal auditors. The value of R is 0.868; the value of R square was 0.752. This means from the findings, 75.2% of changes in the independence of internal auditors in Rwanda, were attributed to independent variables of this study.

Table 4.13: ANOVA

		Sum of Squares	df	Mean Square	F	Sig.
Equation 1	Regression	.255	3	.089	3.214	.004
	Residual	2.398	138	0.020		
	Total	2.653	141			

ANOVA table shows that the processed data at 5% of significant level, value for F calculated is 3.214 which is greater than F critical at 5% which is 1.96 (43.214>1.96). Thus means the overall model was significant.

Table 4.14: Coefficient

Variables		Unstandardized Coefficients		Beta	t	Sig.
		B	Std. Error			
Equation 1	(Constant)	3.335	3.172		.754	.0042
	B4	.123	.182	.285	.839	.0039
	B7	.142	.708	.048	.254	.0031
	B00	.031	.267	.029	.405	.0041

The equation becomes

$Y = 3.335 + 0.123B4 + 0.146B7 + 0.031\ B00 + \varepsilon$

Where Y= Independence of internal auditors, B4 Reporting structures, B7 Limitation in scope, B00 is traditional role of internal auditors.

From the findings of this regression analysis, if all factors (reporting structures, limitation in scope, and traditional role of internal auditors) are held constant, the independence of internal auditors would be at 3.335. An in increase in reporting structures would lead to an independence of internal auditors by 0.123, an increase in limitation of scope would lead to an increase in independence of internal auditors by 0.142 and an increase in traditional role of internal auditors would lead to an increase in independence of internal auditors by 0.031. All the variables of the study were significant since P. values were less than 0. 005 thus all factors were statistically significant

4. 8 Correlation Analysis

Table 4.15: The relationship between independence of internal auditors and reporting structures

Variables		Independence of internal auditors	Reporting structures
Independence of internal auditors	Pearson Correlation	1	0.721
	Sig. (2-tailed)		.0037
	N		142
Reporting structures	Pearson Correlation	.721	1
	Sig. (2-tailed)	.0037	
	N	142	

Pearson correlation coefficient (r = 0.721) shows that there is positive strong correlation between independence of internal auditors and reporting structures. The results also show that the significant value is 0.0037 which is less than 0.005 thus it is significant. And it means the effective reporting structures assure the independence of internal auditors. This means that the increase in reporting structure of internal auditor reduce their independence and vice versa.

Table 4.16: The relationship between independence of internal auditors and traditional role

Variables		Independence of internal auditors	Traditional role of internal auditor
Independence of internal auditors	Pearson Correlation	1	.530
	Sig. (2-tailed)		.0041
	N	142	142
Traditional role of internal auditor	Pearson Correlation	.530	1
	Sig. (2-tailed)	.0041	
	N	142	142

Pearson correlation coefficient (r = 0.530) shows that there is positive moderate correlation between independence of internal auditors and traditional role of internal auditor. The results also show that the significant value is 0.0041 which is less than 0.005 thus it is significant. This means that the increase in traditional role of internal auditors reduce their independence and vice versa.

Table 4.17: The relationship between independence of internal auditors and limitation in scope

Variables		Independence of internal auditors	Limitation in scope
Independence of internal auditors	Pearson Correlation	1	.670
	Sig. (2-tailed)		.0029
	N	142	142
Limitation in scope	Pearson Correlation	.670	1
	Sig. (2-tailed)	.0029	
	N	142	142

Pearson correlation coefficient (r = 0.670) shows that there is positive moderate correlation between independence of internal auditors and traditional role of internal auditor. The results also show that the significant value is 0.0029 which is less than 0.005 thus it is significant. This means that the increase in limitation of scope of internal auditor reduces their independence and vice versa.

4.9 Chapter summary

The chapter analyzed and interpreted the data on the factors impairing the independence of internal auditors where it is shown that currently internal auditors in Rwanda are moderately independent due to impairing factors specifically limitation in audit scope, reporting structures and traditional role of internal auditors. It is also revealed that independence of internal auditors would significantly lead to good corporate governance and the audit committee play significant role to protect the independence of internal auditors.

CHAPTER 5. DISCUSSION, CONCLUSION AND RECOMMENDATION

5.1 Introduction

This chapter summarizes the findings of the study, it also provides discussion on the findings with comparison with previous searches on the topics and finally it gives the conclusion and recommendation of the study based on the research questions of the study.

5. 2 Summary of the findings

The study on the factors impairing the independence of internal auditors in Rwanda had 4 main research objectives including the determination of current level of internal auditor's independence in Rwanda, identifying the factors impairing the independence of internal auditors in Rwanda, implications of internal auditor's independence on corporate governance and role of audit committee in enhancing and promoting the independence of internal auditors in Rwanda.

On first objective, the study revealed that internal auditors in Rwanda are moderately independent in their work, it revealed that they report functionally to audit committee which is a primordial determinant of internal auditors independent, the study also revealed that audit unit in the organization is positioned to corporate level of the organization which is consistent with best practice of international standard of internal auditors , the research also showed that internal audit function has a specific budget reserved for their operations and it is approved by board of directors. The study also showed that the length of a period internal auditor stays in position within the organization is between 2 and 4 years and the colleagues perceive intern al auditors as their partners for effective and efficient running of the organization. However the study revealed that management influences the internal auditors in the audit planning which is a threat to independence of internal auditors, it is also shown that it is common to move internal auditors to other position within the organization and this negatively can affect the independence of internal auditors.

The second objective of the study was to identify the factors impairing the independence of internal auditors in Rwanda and the study found that independence of internal auditors is very strongly impaired by reporting structures, traditional roles and limitations in scope. The study revealed that familiarity and social pressures between internal auditors and management is a strong independence threat to internal auditors. It is shown by the study that sometimes, internal auditors assumes management responsibilities thus conflicting with their daily work. The study also revealed that internal auditors are restricted in scope especially in some financial matters and is difficult to them to have free and unrestricted access to some records, transactions and staff within the organization thus strongly impairs their independence. it is shown that the audit reports are subject to prior approval by top management before being released and internal auditors are not easily accessible to board of directors who are responsible for the governance. The study again reveled that the top management are empowered to recruit, appraisal the performance, award promotion and can dismiss internal auditors thus strongly impairs the independence of internal auditors. The study finally showed that sometimes unreasonable deadline prevails upon internal auditors to complete the audit test and issue the report.

On the implications of internal auditors' independence on corporate governance, the study revealed that independence of internal auditors would be a cornerstone of corporate governance through enhancing transparency, discipline and accountability in the organization. The study further reveals independence of internal auditors allows fairness and participation in decision making process of the organization thus lead to effective and efficiency running of the entity. The findings further showed that independence of internal auditors would enhance responsiveness and rule of law thus lead to the compliance with corporate social responsibility and meets with stakeholders' expectations.

The research also studied the role of audit committee to enhance and promote the independence of internal auditors and found the organizations have a functioning audit committee and the majority of the members of audit committee have some background and technical experience in accounting which enables them to understand the work of internal auditors. The study also found that audit committee preserves the independence of internal auditors through provision of regular meetings with internal auditors and provision of independent forum between internal auditors and members of audit committee to raise the matters on weakness of the management. The study further shows that audit committee provides input in audit planning and selection of audit samples.

5.3 Discussions

5.3.1 Current level of internal auditors independence

The respondents agreed with the statements that internal auditors report functionally to audit committee and internal audit unit is placed on the corporate level of the organization. The findings coincide with the findings of (Joe Christopper, GerrIt Sarens and Philomena Leung, 2009) where they saw that the hierarchal position internal audit unit at corporate level of organization as opposed to position it at intermediate and operational level is favorable to maintain the independence of internal auditors. The findings also are similar to the best practice of institute of internal auditors standards which stipulates that internal auditor to maintain the independence must report to an independent organ of the organization which audit committee.

The independence is one of the fundamental principles in the auditing profession especially when the entity wants to perform in effective and efficient manner. Independence of internal auditors can be ensured by establishing strong structures of the internal audit unit such as reporting relationship to appointment and recruitment process of internal auditors." It is therefore advisable that internal auditors should functionally report to the highest independent organ of management and should not be put in a situation where their employment, promotion and remuneration are determined by top executives in management to objectively maintain their independence" (Egbunike, Patrick Amaechi and Egbunike, Francis Chinedu, 2017).

5.3.2 Factors impairing the independence of internal auditors

Majority of the respondents identified familiarity and social pressure, undertaking of management responsibilities and consulting activities, prior approval of internal auditors reports by top management before being released, interference of management in determining audit samples , unreasonable deadlines to internal auditor to complete the audit test, accessibility by internal auditor to board of directors, allowing internal auditor to provide training to other staff of the organization internal auditors and internal auditor being restricted to some financial matters as potential threats to independence of internal auditors.

The respondents confirmed that the statements provided meet with the researcher's expectation on the factors affecting the internal auditors' independence. It is also similar to the best practice of institute of internal auditors which found that the involvement of internal auditor in management activities like consulting and providing training to other staff of the organization is threat to their independence (Ferreira, 2007). It was also seen that management being influencing the recruitment, promotion and dismissal of internal auditors negatively affect the independence of internal auditor, this is because internal auditors can find themselves in conflict of interest with their job securities and carry out audit in favor of the management.

5.3.3 Implications of independence of internal auditors to corporate governance

The study revealed that independence of internal auditor enhances discipline, accountability and provides transparency in the entity. These findings are consistent to the research done by (Mahd Ali Al- jabali, Osama Abdalmanam and Khalifeh N. Ziadat, 2011) on the study of internal audit and its role on corporate governance and they saw that independence of internal auditor creates value to the organization through accountability and transparency.

The study also confirmed that internal auditor's independence could allow fairness, enhances efficiency and effectiveness and allows participation in decision making process. The majority of the respondents agreed with the statements that independence of internal auditors facilitate participation in decision making process and enhance efficiency and effectiveness in all operations of the organization. The study revealed that there is strong correlation between independence of internal auditors and good corporate governance through enhancement of accountability, transparency, responsiveness and being responsible to stakeholders' expectations.

5.3.4 Role of audit committee to enhancing and promoting the independence of internal auditors

The respondents confirmed that members of audit committee in their organizations had background in accounting and technical expert to understand the work of internal auditor this means they really understand the work of internal audit thus protect could protect the independence of internal auditors.

The study further showed that organizing a regular meeting between internal auditors and audit committee allows the committee to give input and participate in internal audit, this means audit committee is readily accessible to internal auditors and helps them to plan for internal audit functions as required by the international institute of internal auditors’ standards.

The study finally revealed that audit committee protects the independence of internal auditors through provision of independent forum to internal auditors raising matters on weakness of the management. Kennedy Sakaya Barasa who studied the role of audit committee on corporate governance confirmed this by saying "audit committee is an oversight organ in the organization with independent autonomy to assist internal auditors to be protected from the management influences through regular meeting and independent meetings with internal auditors" (Barasa, 2015)

5.4 CONCLUSIONS

5.4.1 Current level of internal auditors independence

The study concluded that independence of internal auditors in Rwanda is at moderate level and it showed that internal auditors did not report functionally to audit committee and board of directors as effectively required by regulators and international standards, the positioning of internal audit unit corporate level of the organization and having sufficient budget for internal audit functions. However the study reveals that management influences in internal audit planning functions and are empowered to move internal auditor to other functions within the organization.

5.4.2 Factors impairing the independence of internal auditors

The research concluded that internal auditors' independence is impaired by internal auditor being restricted in scope by not having access to some financial records, transactions, and operations of the organization. Internal auditors are also impaired by being restricted to some financial matters of the organization.

The study further showed that internal auditors are impaired by traditional practices where they are assuming management responsibilities and allowed to provide trainings to other staff within the organization thus may arise the conflict of interest.

Lastly the study reveals that internal auditors' independence is impaired by reporting structures where the audit reports are subject to prior approval of the management before being released, it further shows that sometimes there are unreasonable deadlines to internal auditors to complete the audit test and issue the report

5.4.3 Implications of independence of internal auditors to corporate governance

The study concluded that independence of internal auditors contributes significantly to good corporate governance practices by enhancing fairness, transparency and accountability. It also showed that independence of internal auditors enhances discipline, rule of law and consensus decision making within the organization. The study concluded that independence of internal auditors facilitates responsiveness and helps to meet stakeholders' expectation by being socially responsible to all stakeholders.

5.4.3 Roles of audit committee in protecting the independence of internal auditors

The study concluded that audit committee can protect and enhance the independence of internal auditors through provision of independent forum between members of audit committee and internal auditors to raise matters on the weakness of the management. The study also concluded that members of audit committee strengthen the independence of internal audit by providing the input the audit planning functions and the determination of audit samples.

5.5 Recommendations

5.5.1 Recommendation for improvement

5.5.1.1 Current level of internal auditors independence

The findings showed that internal auditors in Rwanda are moderately independent which is a critical issue in the assurance profession and sound management of the organizations, their independence need to be strengthened by not allowing management to interferes in the work of internal auditors especially in internal audit planning functions. The management also should not have empowered to move the internal auditors to other positions within the organization.

5.5.1.2. Factors impairing the independence of internal auditors

Based on the findings of the study, it is recommended that internal auditors need to have full access and not be restricted to the organizational, records, transactions, operations and staff. It is also recommended that internal auditors should avoid conflicting responsibilities like assuming management responsibilities and providing training to other staff of the organization. It is finally recommended that reporting structures should be improved and management avoids to giving unreasonable deadlines to internal auditors to complete the audit test and audit reports should be independently reported to audit committee without the influence of the top management

5.5.1.3 Implications of independence of internal auditors to corporate governance

It is recommended that independence of internal auditors need to be strengthened to still fostering the principles of good corporate governance

5.5.1.4 Roles of audit committee to enhancing and protecting the independence of internal auditors

It is recommended that audit committee in the organization must independently protect the independence of internal auditors and provide regular and consistent meeting with them. It is finally also recommended that members of the committee must have some knowledge and background in accounting to be able to understand the work of internal auditors.

5.5.2 Recommendation for further studies

Basing on the limitations faced in this study is suggested that similar research need to be done in private and public sector separately and increasing the population by including other internal auditors whore are not members of the institute of internal auditors in Rwanda.

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Appendices

HAVUGIMANA Dieudonne

MBA FINANCE

UR CBE GIKONDO CAMPUS

Registration number: 217303169

Phone: 0785808243

Email: havugadieu05@gmail.com

10th September, 2018

Re: Request for research data

Dear Respondents,

I would like to request the information related to the research of MBA thesis,

In fact, I am doing dissertation on a topic entitled "T he study of the factors impairing the independence of internal auditors in Rwanda". My population includes internal auditors in public and private institutions, it is therefore in this regard I am humbly requesting to fill the attached questionnaire and I am assuring that the information you provide on this questionnaire will be used for academic purpose only. On the attachment there is also the recommendation letter from the University.

Thank you for your good collaboration

Sincerely,

HAVUGIMANA Dieudonne

Internal auditor's Questionnaire

Section A: Profile of the respondents

1. Gender: Male ( ) Female ( )

2. Age 20 – 29 ( ) 30 – 39 ( ) 40 – 49 ( ) 50 – 59 ( ) 60 and above ( )

3. Level of qualification

Diploma ( ) Bachelor ( ) Master ( ) Others Specify

Level of experience Less than 5 years ( ) 6 – 10 years ( ) 11 – 15 years ( ) 16 – 20 years ( ) 21years and above ( )

4. Type of organization: Public ( ) Private ( )

5. Size of organization: Large ( ), Medium ( ) Small ( )

Section B: Current level of internal auditors 'independence

1. To whom does internal auditor report functionally?

1. Chief Executive Officer (CEO)
2. Chief Finance Officer (CFO)
3. Both CEO and CFO
4. Audit committee
5. Board of Directors

2. To whom does internal auditor report administratively?

1. Chief Executive Officer (CEO)
2. Chief Finance Officer (CFO)
3. Both CEO and CFO
4. Audit committee
5. Board of Directors

3. What is the hierarchical position of internal audit unit in your organization?

1. Senior management level
2. Intermediate management level
3. Operational (lower) management level

5. who does approve internal audit budget in the organization

1. Chief Executive Officer (CEO)
2. Chief Finance Officer (CFO)
3. Both CEO and CFO
4. Audit committee
5. Board of Directors

6. How many Years does internal auditor stay within audit function in your organization

1. Less than 2
2. Between 2-4
3. Between 5-7
4. Between 8-10
5. More than 10

Dear respondent, rate the following statement whereby 1: Strongly agree 2: Agree 3: Neutral 4: Disagree 5: Strongly disagree

		1	2	3	4	5
6	There is specific internal audit budget in the organization					
7	Senior management participates and gives input in audit planning function					
8	Colleagues within the organization perceives internal auditor as his/her partner in efficient management of the organization					
9	In our organization, it is common to move internal auditor to other functions within the organization					
10	There is a free and unrestricted access by internal auditor to all operations, transaction records, all assets and personnel in the organization					

Section C: Factors affecting impairing independence of internal auditors in Rwanda.

Dear respondent, rate the following statement which describe the factors impairing the independence of internal auditors in the institution whereby 1:Stongly agree 2: Agree 3: Neutral 4: Disagree 5: Strongly disagree

		1	2	3	4	5
1	There is effective communication between internal auditors, management and board of directors					
2	Familiarity and social pressure between auditors and management					
3	Internal auditors assumes unintentionally management responsibilities and consulting activities					
4	Internal auditor is restricted to some financial matters					
5	Reports of internal auditor are subject to prior approval of top management before being released					
6	Internal auditor is functionally located under operational department					
7	Internal auditor is not readily accessible to the board of directors which is in charge of governance					
8	Internal auditor is unable to audit, and report findings and opinions without fear of reprisal					
9	Recruitment, promotion, performance appraisal and dismissal of internal auditor is under top management of the institution					
10	Internal auditor is allowed to conduct training of other staff in the institution					
11	Management interferes internal auditor to determine audits sample					
12	Sometimes there is unreasonable deadlines to internal auditors to complete the audit test and issue the report					

SECTION D: Implications of internal auditor's independence on corporate governance

How do you rate the attribute of internal auditors 'independence on corporate governance of the organization where by 1: Strongly agree 2: Agree 3: Neutral 4: Disagree 5: Strongly disagree

		1	**2**	**3**	**4**	**5**
1	Independence of internal auditors enhance discipline					
2	Independence of internal auditors enhance accountability					
3	Independence of internal auditors enhance effectiveness and efficiency					
4	Independence of internal auditors allows participation in decision making process					
5	Independence of internal auditors improve transparency					
6	Independence of internal auditors allow consensus decision making					
7	Independence of internal auditors allow fairness					
8	Independence of internal auditors enhance rule of law					
9	Independence of internal auditors allow responsiveness					
10	Independence of internal auditors enhances corporate social responsibility					

SECTION E: Roles of audit committee to enhance independence of internal auditors

1. Who is empowered to appoint, evaluate, promote or dismiss internal auditor in your organization

1. Chief Executive Officer (CEO)
2. Chief Finance Officer (CFO)
3. Both CEO and CFO
4. Audit committee
5. Board of Directors

Dear respondent, rate the following statement whereby 1: Strongly agree 2: Agree 3: Neutral 4: Disagree 5: Strongly disagree

		1	**2**	**3**	**4**	**5**
2	There is a functioning audit committee in our organization					
3	Is the internal auditor (either head of internal auditor or individual internal auditor) invited to management meeting					
4	Members of audit committee have a background in accounting and technical expert to understand the work of internal auditor					
5	There is regular meeting between internal auditor (either head of internal auditor or individual internal auditor) and audit committee members					
6	The audit committee participates and gives input to internal audit planning function					
7	Members of audit committee are independent to management					
8	Audit committee provides independent forum to internal auditors to raise matters on weakness of the management					

Thank you for your good collaboration!!!!!