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FACULTY OF COMMERCE
DEPARTMENT OF ACCOUNTING

**IMPORTANCE OF RISK BASED INTERNAL AUDITING ON GROWTH AND
SUSTAINABILITY OF MICRO FINANCE INSTITUTIONS: a case of FMC
Finance (pvt) Ltd.**

BY
ESNATH MATARUSE
R1463089

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SUPERVISOR: Mr. KAZEMBE

Contact number :0779 498 860

APPROVAL FORM

The undersigned certify that they have read and recommended to Midlands State University, a research entitled “**Importance of Risk Based Internal Auditing on Growth and Sustainability of Microfinance Institutions: a case of FMC Finance (pvt) Ltd.**” It was submitted by Esnath Mataruse in partial fulfilment of the requirements of Bachelor of Commerce Honours Degree in Accounting.

.....
.....

Supervisor

Date

.....
.....

Chairperson

Date

.....
.....

External examiner

Date

RELEASE FORM

NAME OF STUDENT

Esnath Mataruse

DISSERTATION TITLE

Importance of Risk Based Internal Auditing on
Growth and Sustainability of Microfinance
Institutions: A case of FMC Finance (pvt) Ltd.

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DEDICATION

This dissertation is dedicated to my mother, G Murei, my brother, B Mataruse, my sister E Mataruse and the rest of the family. Without your forbearance, empathy and backing, it would not have been.

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***** May God Richly Bless You All*****

ABSTRACT

The general objective of this study was to establish the importance of Risk Based Internal Audit on the growth and sustainability of microfinance institutions. Literature from different authors was reviewed concerning objectives of the research project. Descriptive research design was used in this research, together with case study design and FMC Finance, Harare was used as a case study. The researcher used judgemental sampling to determine the population and sample size. The research used primary data which was collected using self-administered questionnaires and self-conducted interviews. Both qualitative and quantitative approaches were used to collect data. Data collected from questionnaires was analysed and presented using tables, pie charts and graphs. The researcher found out that FMC Finance is a risk naïve company hence traditional auditing approaches are no longer adequate therefore implementing RBIA will enable its sustainability. To note is the difference between TAA and RBIA whereby RBIA saves time and resources through channelling more audit resources towards risky areas than financial statements areas and compliance. The researcher recommended the adoption of RBIA since it is a proactive action which enables the detection of risks and ways of mitigating them are established to avoid future losses which humpers growth of FMC Finance.

TABLE OF CONTENTS

APPROVAL FORM.....	i
RELEASE FORM.....	ii
DEDICATION.....	iii
ACKNOWLEDGEMENTS.....	iv
ABSTRACT.....	v
LIST OF TABLES.....	x
LIST OF FIGURES.....	xi
LIST OF APPENDICES.....	xii
Chapter One.....	1
1.1 BACKGROUND OF THE STUDY.....	1
1.2 STATEMENT OF THE PROBLEM.....	3
1.3 SUB-RESEACH OBJECTIVES.....	3
1.4 SUB-RESEACH QUESTIONS.....	3
1.5 Delimitations.....	4
1.6 Limitations.....	4
1.7 Assumptions.....	4
1.8 Importance of the research.....	4
1.9 Definition of terms.....	5
CHAPTER TWO: LITERATURE REVIEW.....	6
2.0 INTRODUCTION.....	6
2.1 Internal auditing overview.....	6
2.2 Risks affecting micro finance institutions.....	6
2.3 Risk Management.....	8
2.4 Traditional auditing vs Risk based internal auditing.....	10
2.5 Roles of the internal audit on risk management.....	11

2.6 Risk based internal auditing and its objectives.....	14
2.7 Role and scope of the risk based internal audit	14
2.8 Implementing RBIA	15
2.9 Importance of RBIA on growth of MFIs.....	17
2.10 The Environment for RBIA Implementation	19
2.11 Chapter Summary.....	20
CHAPTER THREE: RESEARCH METHODOLOGY	21
3.0 Introduction	21
3.1 Research Design.....	21
3.1.1 Case study design	21
3.1.2 Descriptive Research design	22
3.2 Study Population	23
3.3 Sampling.....	24
3.3.1 Sampling techniques	25
3.3.2 Sample Size.....	26
3.4 Sources of Data	27
3.4.1 Primary data	27
3.4.2 Secondary data	27
3.5 Research Instruments	28
3.5.1 Interviews	28
3.5.2 Questionnaires.....	29
3.5.2.1 The Likert Scale	29
3.6 Validity and Reliability of Research Instruments	30
3.6.1 Validity.....	30
3.6.2 Reliability.....	30
3.7 Data Presentation and analysis.....	31
3.8 Chapter Summary.....	31

CHAPTER FOUR.....	32
DATA PRESENTATION AND ANALYSIS	32
4.0 INTROCUCTION	32
4.1 QUESTIONNAIRE RESPONSES	32
4.1.1 Questionnaire response rate	32
4.2 DATA PRESENTATION AND ANALYSIS	33
4.2.1 Respondents’ personal details	33
4.3 RESPONSES RELATED TO RESEARCH STUDY	35
4.3.1 The Internal Audit Function audits the financial statements and compliance	35
4.3.2 Risks affecting FMC Finance.....	36
4.3.3 Adequate attention is being given to the risks.....	39
4.3.4 FMC Finance has a risk management Framework.....	40
4.3.5 The role of the Internal audit in risk management	40
4.3.6 Traditional techniques are no longer adequate for FMC Finance.....	44
4.3.7 Implementing RBIA improves the loan book quality	46
4.3.8 FMC Finance has the following resources for implementing RBIA	47
4.3.10 RBIA enables more efficient use of resources	50
4.3.11 Implementing RBIA will enable the sustainability of FMC Finance.....	51
4.1.2 Interviews response rate	51
4.4 Response from interviews	52
CHAPTER FIVE	56
SUMMARY, CONCLUSIONS AND RECOMMENDATIONS.....	56
5.0 INTRODUCTION.....	56
5.1 Chapter summaries	56
5.2 Summary of major findings	57
5.2.1 Major risks affecting FMC Finance	57
5.2.2 Non-existence of risk management framework	57

5.2.3 The role of the internal audit in risk management	57
5.2.5 Adequate attention is being given to risks	58
5.3 Conclusion to the research	58
5.4 Recommendations	58
5.5 Areas of further research	59
Reference List.....	58

LIST OF TABLES

Table 2.1: Differences between TAA and RBIA.....	11
Table 3.1: Target population and accessible population.....	24
Table 3.2 Accessible population and sample size.....	26
Table 3.3 The Likert Scale.....	30
Table 4.1: Questionnaire response rate.....	322
Table 4.2 Position statistics.....	333
Table 4.3 Qualifications distribution.....	344
Table 4. 4 Respondents work experience.....	355
Table 4.5 Internal Audit Function audits financial statements and compliance.....	366
Table 4.6 Risks FMC Finance is exposed to.....	377
Table 4.7 Attention given to risks.....	399
Table 4.8 Availability of risk management framework.....	40
Table 4.9 Roles of the internal audit in risk management.....	41
Table 4.10 Traditional Auditing Techniques.....	444
Table 4.11 Implementing RBIA improves the loan book quality.....	465
Table 4.12 Availability of resources for implementing RBIA.....	477
Table 4.13 RBIA enables more efficient use of audit resources.....	509
Table 4.14 RBIA enable sustainability of FMC Finance.....	50
Table 4.15: Interviews response rate.....	51

LIST OF FIGURES

Figure 2.1 Risk matrix	9
Figure 2.2: Internal audit roles	13
Figure 2.3: The diagrammatic representation of risk based internal auditing framework.....	15
Figure 2.4 The stages in RBIA	17
Figure 4.1 Qualifications distribution	344
Figure 4.2 Risks affecting FMC Finance	38
Figure 4.3 Attention given to risks identified	399
Figure 4.4 traditional auditing techniques	454
Figure 4.5 implementing RBIA improves the loan book quality.....	466
Figure 4.6 Resources for implementing RBIA at FMC Finance	487
Figure 4.7 RBIA enables efficient use of audit resources	509

LIST OF APPENDICES

APENDIX A	67
APENDIX B	68
APENDIX C	71

CHAPTER ONE

INTRODUCTION

1.0 Introduction

This chapter introduces the study. It sets the tone for the research through an outline of the research problem, namely the use of traditional approaches to internal auditing. The company under review shall be First Micro Credit Finance Private Limited (hereinafter FMC Finance). The chapter provides a brief background to the study, sub-research questions and objectives, justification of the study as well as an operational definition of key terms that are going to be used as the study progresses. The chapter also details the assumptions and or hypothesis of the research as well as the limitations and delimitations of the study.

1.1 Background of The Study

FMC Finance is a credit only microfinance company which is fully registered under the Micro Finance Act, Chapter (24:29). It is also regulated by the Companies Act Chapter (24:03). The Company started its operations in 2009 with government of Zimbabwe workers and government pensions being the major portfolios. Of late the company is operating in a microfinance industry which has a compliment of 178 (credit only) microfinance institutions, 4 Deposit Taking Micro Finance Institutions (DTMFs) and banks (The Monetary Policy, 2018).

It is trite that financial service providers are exposed to a great number of internal and external risks which affect their financial viability as well as long term sustainability. These risks must be managed effectively and efficiently to enhance growth and sustainability. Risk base

and internal auditing, as defined by Mefford (2014) is about aligning the annual audit plan, and corresponding projects and efforts, with the objectives of the organisation.

Currently FMC have an internal audit function which is done annually at branch and departmental level as a control measure using the traditional audit approach. Under this control, individuals have appropriate responsibility for control over assets and data and the processing of transactions. According to the 2017 internal audit report, the objectives of the internal audit function are two-fold. First, they are meant to ensure that loan officers and management adhere to the internal controls. Secondly they are meant to serve as financial auditing tools. The scope of the audit is mainly centred on ascertaining whether the personnel

is complying with FMC's generally accepted principles leaving out risks, the branch, department and the organisation as a whole, are exposed to.

Financial risks are of great concern in the standard banking literature but have gained little attention from the research community in micro finance up to now (Gietzen, 2017). The major financial risks that are affecting growth and sustainability of FMC Finance include credit risk, liquidity risk and interest rate risk. Credit risk is the risk to earnings or capital due to borrowers' late and non-payment of loan obligations. Credit risk is not being managed effectively within the organisation as evidenced by poor portfolio quality. According to the company statistics, at 31 December 2016, 27.5% of the global loan book were written off loans and this is mainly attributable to ineffective risk assessment at the planning stage of the internal audit. In 2017 the organisation invested a lot of time and resources in trying to recover the over-dues which had accrued by end of 2016 thus diverting the focus from expansion and growth to controlling delinquent loans thereby hampering growth.

According to the external auditor's report for December 2017, the growth FMC Finance was hampered by poor risk management. It was reported that liquidity risk implies maintaining sufficient cash for funding through an adequate amount of committed credit facilities. The company's risk to liquidity is a result of the national cash crisis in 2017 and poor risk management by both management and the internal audit. The external audit noted that a new product which was introduced in 2017 February, long term revolving loans ballooned the loan book by 30% and increased the profit for the year. Huge loan amounts were applied for and they scooped all the funds which were budgeted to sustain all disbursements and payments for the year. This resulted in the company running for months struggling to fund loan disbursements leading to customer dissatisfaction and some clients ended up cancelling the loans and going to competitors reducing the client base by 18.3% (The managers' performance minutes of the meeting, 2017)

Furthermore, the organisation is exposed to operational risks which must be managed properly to enhance the growth and sustainability of the company. In 2017 two fraudulent cases were recorded from FMC finance, one from a loan officer and the other from a mobile agent. Company Statistics have it that the year 2017 witnessed financial leakages amounting to a total of \$8,572.62. Those funds could have been used for disbursements. Apart from financial loss, both cases resulted in loss of clients in the affected branches and reduced the

sales value for the year ending 31 December 2017. Although the internal audit was being performed yearly, these cases were not detected because the audit scope and plan focused on compliance and auditing financial statements. Regrettably, these losses could be attributed to the use of traditional auditing approaches, of which it would not have been the case had the company resorted to contemporary risk based internal auditing approaches.

Risk-based internal auditing selects the high-risk fields determined by risk assessment as a focal point and provides time and cost saving in the audit (www.clinaudits.com, accessed 1435hrs 19.02.2018). This study makes the case for the adoption of a risk based internal auditing approach by FMC Finance if they are to avoid financial leakages in future.

1.2 Statement of The Problem

FMC Finance has been growing rapidly for the past years, expanding to all corners of the country. As competition begin to stiffen in the external environment, the organisation is continuously changing its ways of operation by revising its clientele as new portfolios are being engaged, introducing new products in order to compete for customers and resources. Therefore, the organisation is becoming more complex and more exposed to internal and external risks hence the need for periodic reviews of risk management systems and internal controls becomes greater. This gap has motivated the writer to explore the importance of risk based internal audit on the growth and sustainability of the organisation.

1.3 Sub-Research Objectives

The study will achieve the following objectives,

- a) to identify the major risks affecting FMC Finance
- b) to review the differences between the traditional approach and RBIA
- c) to assess the role of internal audit function on risk management
- d) to review the importance of RBIA on the growth of FMC Finance

1.4 Sub-Research Questions

- a) What are the major risks faced by FMC Finance?
- b) What are the differences between RBIA and traditional internal audit approach?
- c) How best can the internal audit function assist in risk management?
- d) How does RBIA affect the growth of the company?

1.5 Delimitations

This study will mainly focus on First Micro Credit in Harare Head Office and Harare Branch for the period of January 2014 to December 2017. The study is only looking at RBIA as the only determinant of the growth and sustainability of the organisation.

1.6 Limitations

- a) The researcher experienced financial constraints due to limited funds for phone calls and travelling to and from the company offices. This limitation was addressed by the use of cyber communication to communicate with FMC personnel.
- b) Time constraints were also a limitation to the research since the researcher was a full time student. The researcher maximised the use of nights and weekends to complete the research
- c) The researcher experienced limited access to confidential data which was useful to the research. The researcher provided assurance that the data will be held confidential and for academic purposes only.

1.7 Assumptions

For the purposes of the study, the following assumptions were made,

- a) The responses provided on the questionnaires are accurate and reflect a true and fair view of the institution.
- b) The sample size used by the researcher will represent a true and fair view of FMC Finance.

1.8 Importance of the research

A. To the researcher

The study was done in partial fulfilment of the Bachelor of Commerce (Honours) Accounting Degree at Midlands State University. The study will help the researcher to appreciate the risks that affect a microfinance institution in achieving its major objectives.

The study is important in helping the researcher to understand the implementation of the risk based internal auditing model.

B. To Midlands State University

The study is intended to provide literature for use by other students.

C. To First Micro Credit

The research findings and the recommendations will assist the company to improve its risk management process by adopting the risk based internal auditing.

1.9 Definition of terms

Internal Auditing

An independent, objective, assurance and consulting activity designed to add value and improve organisation operations. (IIA 2013)

Risk

According to (<https://economictimes.indiatimes.com>, accessed 1549hrs 20/03/2018) risk is the future uncertainty about deviation from expected outcome.

Risk Management

Identification, analysis, assessment, control and avoidance, minimisation or elimination of unacceptable risks. (www.businessdictionary.com accessed 1549hrs 20/03/18).

Risk based internal auditing

IIA defines risk based internal auditing as a methodology that links internal auditing to an organisation's overall risk management framework. It provides assurance to the board that risk management processes are managing risks effectively in relation to the risk appetite.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

This chapter is going to review the literature by different authors pertaining to the roles of the internal audit function on risk management. Literature review provides a depiction, summary and evaluation of different writings (Wee and Banister, 2016). It is also going to highlight the different effects on financial performance of using the traditional approach and RBIA approach. The development of the RBIA approach and the implementation are also going to be discussed in this chapter.

2.1 Internal auditing overview

The Institute of Internal Auditors (IIA, 2014) defined internal auditing as an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations (www.theiia.org accessed 1354hrs 13/03/2018) . The internal audit activity adds value to the organisation when it provides objective and relative assurance and contributes to the effectiveness of governance, risk management and control processes (Webner, 2015). (www.iiasa.org.za accessed 1320hrs 13/03/2018) described the internal audit as an independent advisor, a catalyst for improvement, with the aim of ensuring that the institution as a whole achieves its objectives by providing insight and recommendations. Manoukian (2017) averred that internal auditing is performed at designated times to assess if the organisation is understanding the risks that it faces during its operation. According to (<https://indiamicrofinance.com> accessed 1803hrs 13/03/2018), the internal audit manager should prepare a timely audit plan which stipulate how the audit exercise will be carried out.

The literature reviewed that authors were of the same view about internal audit as a function which adds value to the organisation through maintaining independence and objectivity. The authors alluded that internal audit incorporate risk management and it is a must for modern businesses

2.2 Risks affecting micro finance institutions.

In the Zimbabwean context, researches were done on risks and their effects on MFIs operations, sustainability and growth. Manyumbu, Mutanga and Siwadi (2014) did a research

on factors affecting the sustainability of growth of MFIs in Zimbabwe and risks were the major hindrance on sustainable growth. During the research it was concluded that MFIs operations was under major threats coming from liquidity problems and under these conditions there were no positive growth prospects. Also Dube and Matanda (2015) studied the causes and remedies of the downfall of micro-lending in Zimbabwe and insinuated that inefficient credit risk management results in a downfall of an MFI. According to Mago, Hofisi and Mago (2013), in their research it was concluded that MFIs in Zimbabwe are suffering from operational risks therefore the need for operational risk management. MFIs require human capital development to capacitate them in the field of operational risk management. Operational risk and credit risk are inter-twined and are the primary causes of MFI's failure. According to the Micro Finance Industry Report for the quarter ended 30 June 2015, accessed at (www.rbz.co.zw, 19/03/2018), from December 2014 the Portfolio at Risk (PAR) worsened and this was attributable to high credit risk in the microfinance sector.

In the context of Africa, Asongo and Nyor (2014) alluded that the major role of micro finance institutions is to provide different financial products and services to low income earners who do not have collateral to access financial assistance from commercial banks. Due to lack of collateral, there is a risk of borrower default, giving rise to liquidity risk. (<https://www.myaccountingcourse.com>, accessed 1413hrs 19/03/2018) defined liquidity risk as the possibility that an institution may not be able to meet its short term debt obligations which will require it to pay penalties and additional fines or lose business. From the research which was done in Kenya on the effects of liquidity on financial performance of DTMF, Njeri (2014) concluded that there is a strong relationship between liquidity and financial performance. Njeri (2014) was of the view that liquidity is the amount of capital that is available for investment and spending.. There is a significant adverse relationship between risk and profit of an MFI implying that a poor performance of an MFI results from poor management of resources (risky loans) (Molen and Mbinkar, 2016). They also concluded that credit risk is a huge handicap to the growth and sustainability of an MFI in terms of profit and client base.

In the context of outside Africa, a microfinance institution is exposed to credit risk. "Credit risk is the risk of default on a debt that may arise from a borrower failing to make required payments" (<https://en.wikipedia.org> accessed 1520hrs 19/03/2018). From a research carried out in India, it was concluded that credit risk results from an MFI's failure to collect the interest due together with the principal resulting from loan defaults (Devi and Shaikh, 2017).

Isanzu (2017) studied on the impacts of credit risks on the financial performance of Chinese banks and found that there is a negative relationship between non-performing loan ratio and financial performance implying that high non-performing loan reduces the bank's return on assets. In Germany, Gietzen (2017) reviewed that despite the fact that a single institution is vulnerable to liquidity risk, calls for an enlargement to a systematic action against this risk in the micro finance industry are lacking foundation in the actual data.

The Basel II defined operational risk as the risk of loss emanating from ineffective management, internal and external fraud, employee errors, natural disasters and IT system disruptions (<http://www.scielo.org.za>, accessed 1432hrs 19/03/2018).

The authors defined the risks which are associated with banks, and financial institutions. They also described how the risks can be identified in the operation of an institution and suggested diverse ways of managing the risks. Diminutive attention was given to internal auditing as a risk management tool, which provide assurance that risks are being managed within the organisation.

2.3 Risk Management

Dugguh and Diggi (2015) defined risk management as a methodical process of appreciating, assessing and addressing risks to ensure that, the objectives of the organisation are met and the organisation is sustainable. "Risk management in business context refers to the opinion that the probability of an occurrence can be lessened and its after effects minimalized" (Zidafamor, 2016). According to (<https://www.evli.com> accessed on 20/03/2018:14:15pm), the objectives of risk management are:

- To ensure the sufficiency of the company's assets in relation to the risk position of the company.
- To ensure that risks are ranked in the right way to attain sustainable profitability.
- To support the constant implementation of the organisation's scheme and the income generation.
- To ensure that the financial outcomes and evaluations remain within the established objectives and limits.

According to Kerazan, (2016); Benli and Celayir, (2014), risk management process consists of six steps which are; risk identification and classification; determining the organisation's risk appetite; determining the risk severity and risk scale; determining the

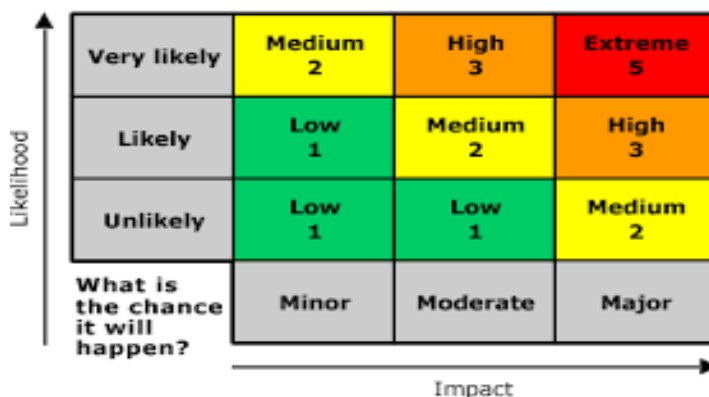
methods or processes to reduce risk to within the risk appetite; ranking the auditable areas through evaluating risks in each auditable area and continuous periodic assessment. Emphasis was on classification and prioritisation of risks for effective risk management in the organisation. Risks can be classified in three levels which are:

- High risk level: it means there are high risk business activities with regards to business sources such as large number of transactions or complex activities. At this level the possibility of a negative effect on operation capital and income is high.
- Medium risk level: at this level risk situation is at a reasonable level and reasonable transactions volume.
- Low risk level: the level states a risk situation where the occurrence of a damage is small and limited.

This can be summarised on a risk matrix.

The risk scoring model can be adopted to detect risks by giving each department or branch a risk score, assisting the management to apprehend a branch with poor portfolio quality and witnessing fraud (<https://www.thehindubusinessline.com>, accessed 0930hrs 20/03/2018). Shar (n.d) (<https://www.irmi.com> accessed 0946hrs 20/03/2018) suggested that operational risks can be managed by developing corporate governance policies. Furthermore, Epetimehin and Fatoki (2015) proposed that operational risks management is an ongoing process which encompasses identification, assessment, measurement and identification of operational risks.

Figure 2.1 Risk matrix



Source: www.infovia.net accessed 1525hrs 22/03/2018

2.4 Traditional auditing vs Risk based internal auditing

Nair (2015) defined traditional auditing as an approach by which internal auditors mainly focus on verification of transactions with less focus on overall risks associated with the audited processes and the organisational requirements of risk management. “Traditional auditing is associated with conducting tests to issue an opinion on the truth and fairness of financial statements of the company being audited”. These tests include tests on internal controls that the company used in producing the financial statements, tests on the amount balances of the accounts and test on the overall posting system of the accounts, (Hijaz, 2014). The TAA and its procedures are both time consuming and cost ineffective making it out dated. The authors reviewed traditional approach as a reactive approach which focuses on previously identified and encountered risks.

RBIA is defined by the Institute of Internal Auditors as a methodology that provides assurance that risks are managed to within the organisation’s risk appetite. Hemmati and Hematfar (2013) further differentiated RBIA and Traditional Audit Approach (TAA). They stated that the TAA is more like a game of chess whereby players sit across the table looking at the game, that is the client’s business from their own perspective whereas with RBIA the auditor and the client are at the same side and in this case the client has a partner. According to Benli and Celayir (2014) RBIA is differentiated from other internal auditing approaches with its features. These include focusing on areas exposed to higher risk thus creating much value. Internal auditors do not check the control activities but also put a hand towards the development of risk management processes through defining universe of risks, continuously monitor the risk management of the company. The table below shows the differences between RBIA and TAA.

Table 2.1: Differences between TAA and RBIA

Traditional internal audit approach	Risk based internal auditing approach
Audit plan on the audit cycle (time duration)	Audit plan based on the results of the business units risk evaluation and risky areas are covered first and more frequently
Important risks might not be covered in the audit program	Provides assurance that risk are being managed properly
Focuses on deficiencies in controls and noncompliance with laws, rules and regulations	Focuses on risks that are not properly controlled and\ or overly controlled
An understanding of business units operations is built through time consuming processes mapping exercises and might rely on outdated manuals	In depth understanding of business units operations through risk assessment workshops and with the participation of the business units.
Internal audit resources are spread over all business units or activities	More efficient use of internal audit resources by concentrating on risky areas or units
Disagreements with the business units management on the importance of the finding raised by the internal audit.	The importance of risk is established during the risk assessment phase and in agreement between business units management and the internal audit
Disagreements with the business units management over the action plans leading to delays in implementation	Facilitate harmony with the line management on the necessary action plans thus improving timely and effective implementation of corrective measures

Source: Grant Thornton and internal audit (2011:9-10)

2.5 Roles of the internal audit on risk management

The internal audit (IA) used to examine controls, errors, fraud and audit financial statements using historical audit evidence and now in the changing business environment emphasises on better risk management for the future. With the constant changes in the operation environment companies are taking risks for better rewards, hence the consideration of risks in the internal audit planning and process has emerged, (Benli and Celayir, 2014).

According to researches done in Zimbabwe, Matenhese (2014) concluded that 72% of the respondents were of the view that it is not the internal audit's responsibility to take risk management decisions, rather it should advise, challenge and support management's decision making. Mapfeka (2013) studied on RBIA in banks and concluded that since the internal audit is crucial in risk management, it is also its role to participate in the company policy formulation, but however, the internal audit is not included in risk management and therefore cannot sit in the policy formulation meetings. Fryat (2016) studied on leveraging risk management for future growth in Zimbabwe. He noted that a well-established risk management function comprises of three defence lines which include business line operation, risk management function and the internal audit. The internal audit is a necessity for a risk management framework.

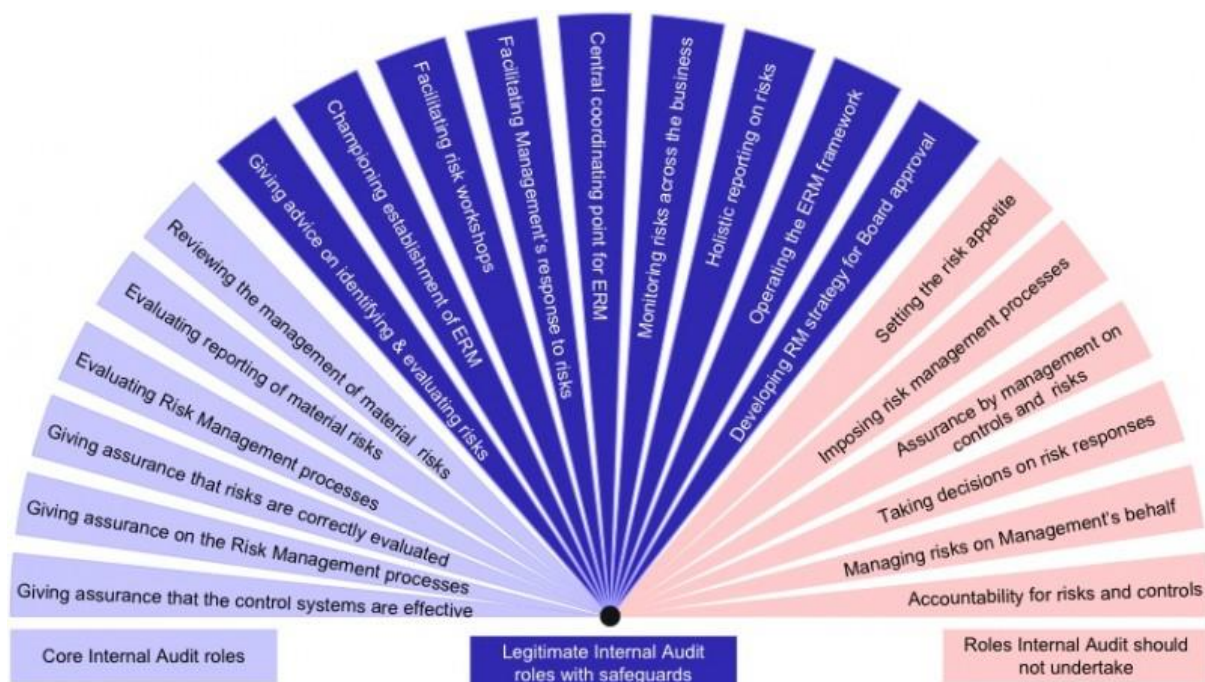
In context of Africa, different perceptions were given with regards to the roles and responsibilities of the internal audit in risk management. Coetzee and Lubbe (2014) studied on improving the efficiency and effectiveness of RBIA engagements in South Africa and argued that internal auditing function can perform its risk assessment rather than to rely on the risk assessment processes performed by the management. Bubilek (2017) did a research in Arcada and found that, the internal audit is there to assist the company to attain its objectives achieve which is success. A study was done in the state corporations in Kenya by Odoyo; Omwono and Okinyi, (2014), and it was concluded that the internal audit should provide consulting services to improve the organisation's governance, control processes and risk management. They went on to say that the internal audit can provide consulting roles such as championing the introduction of risk management in the organisation through facilitating workshops, providing advice and coaching the organisational personnel on risk and control. In South Africa, Williams, (2017) studied on the roles of internal audit in risk management. The conclusion was that internal audit is there to educate the organisation about the possibility of occurrence of an event and management manages the risks then the auditors review the risk management processes by the management.

In context outside Africa, a research done on banks in Jordan, (www.emeraldinsight.com accessed 1134hrs 19/03/2018), it was concluded that the IA has a limited role in risk management. The IAs were mainly focusing on managing risks related to compliance leaving out risks related to the economy of Jordan. Abdullatif and Kawuq, (2015) also studied on the roles of internal audit in risk management in banks in Jordan and averred that it is possible that internal auditors do not have an appreciation on different types of risks and their

appropriate roles in maintaining an acceptable risk level. According to Joksimovic and Ahmed (2017), from a research which was done in Europe it was concluded that the internal auditing role can be viewed as the first line protection on financial performance and corporate governance. Lulia, (2016) studied on the role of internal audit in the banking sector in the world and found that through risk management, the IA not only detects and prevent the risks but assist the organisation to operate more efficiently resulting from a better structured and organised approach.

The Institute of Internal Auditors (IIA) described the roles of the internal audit in risk management. It was highlighted that the IA is not responsible for managing the risks rather it is responsible for providing assurance through written audit report that key risks are correctly identified and evaluated, and provide assurance on the management of such risks (www.oracle.com accessed 1204hrs 20/03/2018). The chart below shows the duties the internal audit should and should not perform in risk management.

Figure 2.2: Internal audit roles



Source: broadleaf.com.au, accessed 1454hrs 20/03/2018

From the chart above, the internal auditor is involved in risk management of an organisation from the development of risk management framework by providing consultation services, to the evaluation of risk management techniques used by management, and providing assurance on whether the risks are being managed within the company's risk appetite.

2.6 Risk based internal auditing and its objectives

“Risk based internal auditing is the methodology which provides assurance that risks are being managed to within the organisation’s risk appetite”, (Griffiths, 2013). RBIA allows internal auditing to provide assurance to the board that risk management processes are managing risks effectively, in relation to the risk appetite. Boateng and Boateng (2014), concluded that the encumbrance to success of MFIs includes multifold and varied manacles. They insinuated that the MFIs management are unlettered on the risks faced by their organisations and their risk management techniques are reactive and ineffective. The Financial Inclusion and advocacy centre available at (<https://www.microfinancegateway.org> accessed 1545hrs 20/03/2018) highlighted that financial institutions exist with a mission of financial sustainability. Since MFIs are exposed to a number of risk, their prediction and detection is important for a viable continuance of the MFI. Furthermore, another research was conducted on RBIA as a tool for improving financial and performance accountability in the health care delivery in developing countries (Ayagre, 2014). It was found that if applied in the health sector, RBIA helps to align a service provider’s risk profile with the provider’s strategic objectives to ensure that more focus is put on high risk areas.

According to Kolomiyets (2017), the objectives of RBIA are to provide independent assurance to the board that:

- Risk management processes are operating as intended.
- These risk management processes are of sound design
- The responses to risks are both adequate and effective in reducing those risks to level acceptable to the board
- A sound framework of controls is in place to sufficiently mitigate those risks

There are a several studies carried out on banks and other financial areas on risk management such as (Akwasi et.al, 2014; Pearl et.al, 2014) but very few in risk management in microfinance sector. RBIA is important due to an increase in the number of transactions processed, complex organisation and increasing changes in the IT environment for sustainability of the organisation under review.

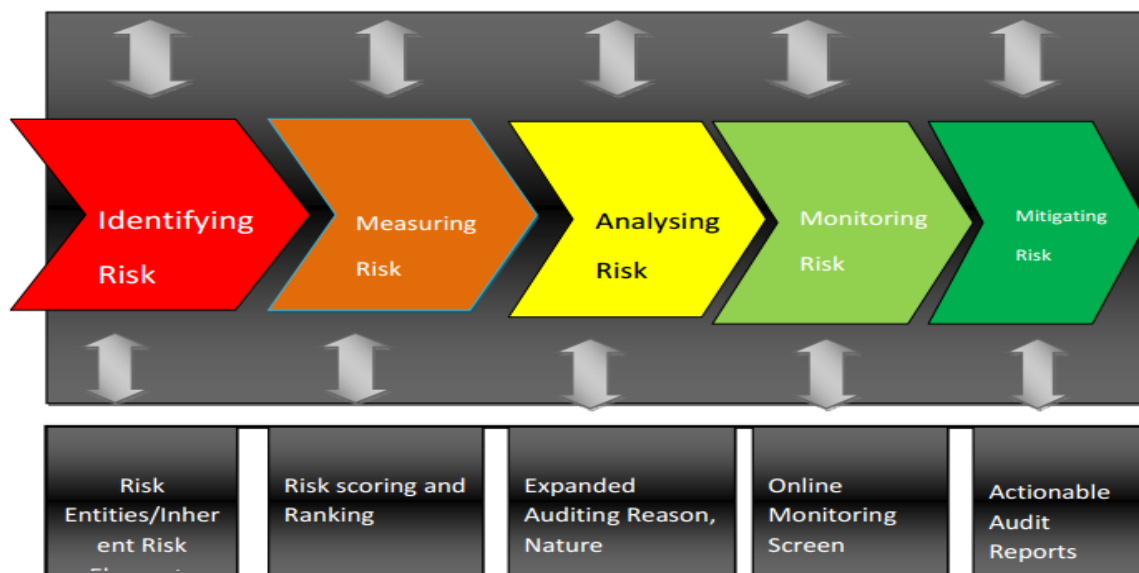
2.7 Role and scope of the risk based internal audit

According to Benli and Celayir (2014), the purpose of risk based internal auditing is to support and contribute to all relevant sides, particularly the management to achieve the

business objectives through helping and directing accurate capturing and minimizing the risks. RBIA selects a high-risk fields as focal point in audit using the outputs of risk management processes hence increasing efficiency in audit at the same time saving time (Benes, n.d). Chartered Institute of Internal Auditors March, (2014) stated that risk based internal auditing enables internal audit to give assurance to the board that risk management processes are managing risks effectively, in relation to the risk appetite.

Furthermore, RBIA reviews the processes used to identify and manage risks by various branches and departments and analyse the variance of the financial performance with business objectives, risks related to those objectives and controls put in place to mitigate the risks. The scope of risk based internal auditing is summarised by the diagram below.

Figure 2.3: The diagrammatic representation of risk based internal auditing framework



Adapted: (<http://www.azilon.com/products-rba.asp>, accessed 1505hrs 22/03/2018)

2.8 Implementing RBIA

The first point of call for the implementation of risk based internal auditing is the risk analysis which is performed at the planning stage of the internal auditing (Benes, 2016). He added that once the risks are assessed the time and resources of the internal audit team are reallocated to the most risky areas. In support Ayagre (2014), insinuated that RBIA principally involves the implementation of an audit plan which is established with inputs from risk assessment and strategic analysis. The IIA (2018) suggested that for a company to effectively implement RBIA it can make use of the audit universe which assist the audit process to be clear about the magnitude of attention of key risks and other risk areas each

year. The Chartered Institute of Internal Auditors (2014) viewed that RBIA can be adopted and implemented only by a company with a strong risk management framework. According to The Chartered Institute of Internal Auditors (2014), the implementation and constant operation of RBIA is in three stages which are assessing risk maturity, periodic Audit Plan, individual Audit assignments.

In implementing RBIA, the internal audit department should consider the assurance required by the Board of Directors from various functions and also include that in the internal audit department charter (www.internalaudit.biz accessed 1642hrs 20/03/2018). RBIA is implemented in the following steps as provided by The Institute of Internal Auditors (2014)

Step 1: Assessing Risk Maturity

Risk maturity is the capability and level on implementation and adaptation of a strong risk management by the company in all business levels for identification, determination and reporting approaches used against opportunities, threats affecting goals and objectives of the organisation, Benli and Celayir (2014). This involves obtaining an overview of an extent to which the board and management determine, assess, manage and monitor risks. This offers an indication of the reliability of the risk register for audit planning purposes.

Step 2: Audit Planning

The Chartered Institute of Internal Audit (2014) states that the meaning of RBIA is the audit plan which is found in the organisation's risk register and its importance for objective assurance. The audit plan should be designed to attend to major risks of the entity, (www.internalauditor.me accessed 1830hrs 20/03/2018). Identifying the assurance and consulting assignments for a specific period, usually annually, by identifying and prioritizing all those areas on which the board requires objective assurance, including the risk management process, the management of key risk, and the recording and reporting of risk.

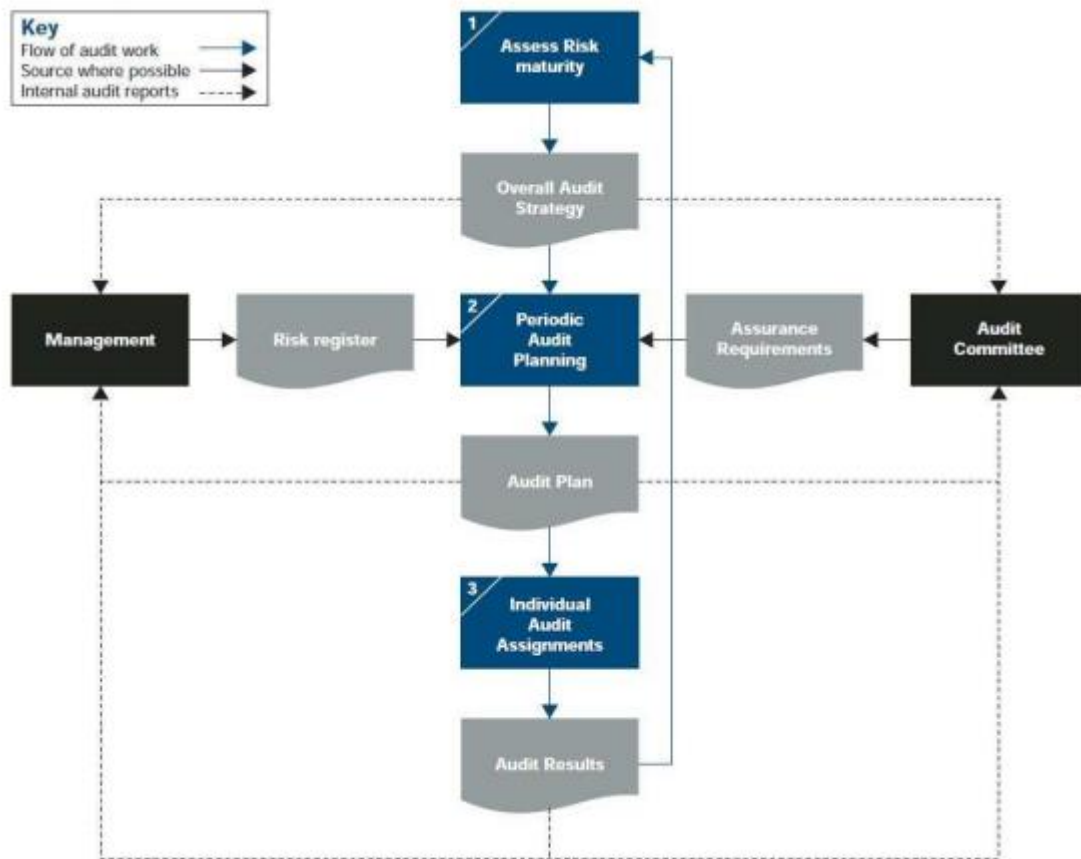
Step 3: Individual audit assignment

Carrying out individual risk based assignments to provide assurance on the part of the risk management framework, including on the mitigation of individual or groups of risks.

Benli and Celayir (2014) also listed the steps to be taken on implementing RBIA which are namely, "to understand the client's business environment and the general information about the business, assessing risks for the business, preparing the risk matrix, placing value on the

risk for the business, planning the internal audit activities and fitting them into the main audit plan and overall program, review the process, document the activities, review functional modules and reporting of results”.

Figure 2.4 The stages in RBIA



Source: global.theiia.org accessed 0135hrs 20/03/2018

The literature reviewed that, all scholars have a common ground on the implementation of RBIA. It has been seen that all authors have agreed that the implementation of RBIA follows three main stages which includes assessing risk maturity, assigning risks to audits and audit planning but Benli and Ceylar (2014) differs from other authors as they further stresses on the need to understand the client’s business environment and other general information about the business before assessing risk matrix.

2.9 Importance of RBIA on growth of MFIs

The growth of an MFI is determined by taking risks for better returns. RBIA assists in managing the risks to avoid negative returns. According to The Chartered Institute of Internal

Auditors (2014) RBIA assists the internal audit to achieve its set targets such as coming up with an audit plan which is in line with the audit charter and operating within the budget.

According to the study which was carried out in Zimbabwe, Manyumbu, Mutanga and Siwadi, (2014) concluded that the reduction in profitability of MFIs in Zimbabwe was a result of high risk especially the interest rate risk. This shows that an MFI needs to manage its risks to improve profitability and increase shareholder's equity. Mbira and Tapera (2016) researched on the key success drivers for MFIs in Zimbabwe and found a strong relationship existing between risk management practices and success of an MFI. An MFI which fails to capitalize on risk management will end up with excessively high PAR levels resulting in losses and the erosion of the capital base.

In the context of Africa, Muraguri (2016) researched on the effects of RBIA on state owned corporations in Kenya and concluded that RBIA through risk assessment has a positive influence on state owned corporations. RBIA allows companies to identify risks on time increasing transparency, accountability and hence improving financial performance of the organisation. Ogega, Kibati and Koima, (2017) also studied on the influence of RBIA on financial sustainability of non governmental organisations in Kenya and found that RBIA allows effective planning on the use of financial resources to avoid risks of uncertainty.

The most important objective of the internal audit is to create value. This can only be achieved if the company has a risk management process in place, a risk maturity level and the internal audit can then provide control assurance and add value to the organisation, (Benli and Celayir, 2014). They grouped the contributions of RBIA into four groups:

1. Strategic benefits

It ensures that the organisation easily adapts to changing conditions through the development of a consistent and comprehensive approach for risk management enabling the management to know the risks to take for better rewards.

It provides an appreciation on management of risks.

2. Performance

It assists the management to identify the risks of opportunity at the same time reducing negative risks.

It uncovers the risks to be correctly uncovered and provides management and internal control to ensure best organisational performance.

3. Aligning the resources

It enables efficient resource allocation and creates the opportunity of cost minimisation.

4. Managing the unexpected

It gives management the ability to correctly respond to unexpected demands and challenges in case of variances from targets.

It helps to understand the possible risks and their actual effects.

RBIA also makes a clear valuable contribution towards the risk management framework through providing objective assurance and aiding management's efforts on risk management framework. It also calls for the involvement of management which have never been involved in internal auditing.

In context outside Africa, RBIA enables auditors to delve into the parent causes of all risks which when resolved enables significant improvements in the institution's operations thereby creating a more concrete risk profile and eventually benefit from focused and solution oriented audit reports (Internationale Projekt Consult, 2017). RBIA highlights the inherent ineptitudes and weaknesses in control mechanisms. It was stated that RBIA enables the internal audit to address the root causes of problems, which are associated with business growth such as increasing numbers of staff, branches and transactions, instead of only auditing outputs. Of note, RBIA provides an effective support for constant improvement of policies and procedures.

In addition, Hemmati and Hermatfar (2013), claims that, both RBIA and TAA addresses the notion of audit risk which encompasses control risk, inherent risk and detection risk. However, they concede that, RBIA takes a step further than TAA by highlighting the elements of business risks.

In conclusion RBIA gives an audit trail which is enhanced by following from an individual audit report through processes, tests and risks to the objectives, to the audit committee report to assess whether the objectives were not threatened. It also ties together all aspects of internal auditing such as the objectives, risks and processes for response to risks, tests and reports and monitoring of controls.

2.10 The Environment for RBIA Implementation

Benli and Celayir (2014) were of the view that when implementing RBIA the internal auditors need to make sure that the approach is in harmony with the nature of the business.

FMC Finance is a risk naïve organisation hence it is important for the internal audit to support risk management for a sustainable growth. Nair (2015) further argued that for an organisation to effectively implement RBIA it should have a risk management framework and a set risk appetite level.

2.11 Chapter Summary

This chapter is made up of work and information published by other scholars and authors from all corners of the world. The information was used by the researcher to compare and contrast the roles of the internal audit in risk management, the risks faced by micro finance institutions, risk based internal auditing and its advantages.

CHAPTER THREE

RESEARCH METHODOLOGY

3.0 Introduction

This chapter outlines the methodology that has been used in the research. It covers a description and discussion of the research design, sampling methods and target population. It also includes discussion of the research instruments, data analysis plan, data collection and their advantages and disadvantages.

3.1 Research Design

Regoniel (2017) defined research design as a plan which guides data collection towards the achievement of the research objectives, that is looking at the existing information to generate new information. According to The Introduction to Research Design retrieved at (https://apus.libguides.com/research_methods_guide/research_methods_design accessed on 04/04/2018 2058hrs), research design refers to the whole approach that is chosen to bring together different components of the research in an understandable way, thereby ensuring that the problem statement is effectively addressed. It establishes the blueprint for the collection, measurement, interpretation and analysis of data. It can be defined as a plan which describes how a structure would look after the construction.

There are a range of different research methods therefore the study will help the researcher to determine the most suitable method that may be used. The researcher opted to use the descriptive design as the design for the project supported by the case study design.

3.1.1 Case study design

A case study is a far-reaching study of a particular situation or organisation rather than a broad statistical survey, (Harrison et al, 2017). It allows the researcher to narrow down and closely scrutinize the data by selecting a small geographical area. In this case the researcher is going to obtain data only from FMC Harare. The researcher chose this design because it can be adapted flexibly to incorporate both qualitative and quantitative methods of research (Raeburn et al, 2015).

However using a case study can make the findings lack generalizability, (Carolan, Forbat and Simth, 2015). Case studies are also too long and difficult to conduct and they produce a massive amount of documentation.

3.1.2 Descriptive Research design

Involves reporting things the way they exist, thus enabling the identification of the current conditions and point out the current needs and immediate status of a particular situation (Ji, 2016). It helps the researcher to understand the characteristics of a certain phenomenon in order to solve a specific problem. In this case the researcher used this research design since it assisted in determining the importance of RBIA on sustainability and growth of FMC Finance. In addition to that, Kakkar (2015), stated that descriptive research design answers the questions such as “where”, “how”, “what”, “who” and “when” but does not provide answers to “why”. A large pool of rich data is collected which leads to a detailed analysis and important recommendations are made by the researcher.

However, this research design has negative effects on the study. Ethridge (2014) suggests that confidential information from respondents might be withheld affecting the information’s quality. According to Salvador (2016), the research design promotes bias by the person gathering the data and information as (s)he can note down what (s)he wants to hear, thereby affecting the data quality which will be used to draw conclusions.

The researcher opted to use this research design because it allows the use of both the qualitative and quantitative research approaches. Facts are presented where conclusions can be drawn from making it conclusive than persuasive.

Qualitative approach

The author opted to use the qualitative method of research, using interviews and questionnaires to understand better how the company perceive the importance of RBIA on its growth and sustainability. According to Crossman (2018), qualitative approach collects and works together with non-numerical data to interpret the meaning of the data which helps to understand the importance of RBIA through studying a targeted population. Qualitative research is an interactive process in which the researcher learns the perceptions of the management on RBIA. Hughes retrieved at <https://www.google.co.zw/url?sa> accessed on 5/04/2018 1306hrs) states that qualitative approach plays an important role in suggesting

possible relationships, causes, effects and dynamic processes. Because the researcher is involved, the researcher will gain an insider's view of the relevant fields.

However, the major disadvantage of this approach is that it is more prone to bias and it is time consuming to collect the data. The respondents may not attend to important question due to limited time, affecting the quality of information used to draw conclusions. The data obtained is not always generalizable because of a small sample size and also the subjective nature of the research, (LUMS Effective Learning, 2016). According to Salvador (2016), there is a probability of data manipulation on data interpretation stage as the researcher may over-emphasize or de-emphasize the responses, altering the meaning of the response.

Therefore, despite the critic cited above, the researcher adopted the qualitative approach to address the research objectives and sub-research questions, for instance the views by FMC Finance staff pertaining to risks affecting the company and their impacts on growth.

Quantitative approach

Quantitative data mainly focuses on the quantity of things, generally the data is acquired in numbers and data analysis includes counting and quantifying the numbers to draw conclusions, (Hughe, n.d). Data is presented in a numerical format and information concerning a study can be developed, as alluded by (Kapoulas and Matic, 2016). They further insinuated that, the approach can be used to describe and examine cause and effect association between variables and clearly outlines the results in a statistical manner. Locke et al (2015) indicated that the existence of something should be corroborated by a degree of measurement, thus data collected should enable statistical treatment to support knowledge claims. According to Salvador (2016), this approach is of paramount importance as there is need to test relationship between variables, in this case the association between RBIA and sustainability and growth.

The author has integrated both qualitative and quantitative approaches in the importance of RBIA on growth and sustainability of the company under review so as to ensure that reliability of data to base conclusions and increase confidence on the research outcomes. 0

3.2 Study Population

The whole set of individuals, objects or other items sharing common characteristics selected for the study is regarded as population by Qureshi (2016). He added that consist of two groups which are target population and accessible population. Asiamah, Mensar and Otenga-

Abayie (2017) defined target population as the whole group of individuals which one wishes to generalise the results of the study. They also defined accessible population as the group of individuals who are available as subjects for the study. The target population for this research will be FMC Finance Harare staff from front office department, back office and collections department, internal audit department, finance department, and administration department.

Table 3.1: Target population and accessible population

Population Identity	Target population	Accessible population
Front office department	21	18
Back office and collections	14	12
Internal audit department	6	5
Finance department	8	7
Administration department	5	3
Executive managers	3	2
Total	57 (100%)	47 (82%)

3.3 Sampling

Sampling is the process, technique or act of selecting an appropriate sample which represent the population for the determining the characteristics of the entire population, Mugo (n.d), retrieved at (http://www.indiana.edu/~educy520/sec5982/week_2/mugo02sampling.pdf accessed on 05/04/2018 1924hrs). Hajimia (2014) also defined sampling as a process of selecting a representative number of individuals for the purposes of the study. The purpose of sampling is for gathering data for making an inference which can be generalised to the population. Detailed information clearly distinguishing the population characteristics was obtained and the target population was divided into different categories (strata). Random sampling on each stratum was conducted to avoid sampling bias.

3.3.1 Sampling techniques

Sampling techniques are defined methods or approaches used in drawing up a sample representative of a target population thereby enabling the researcher make a conjecture. According to Hajimia (2014), these methods are put into two distinct categories, probability and non-probability sampling techniques. The researcher is going to use sampling techniques which fall under probability sampling and stratified random sampling.

Probability sampling

In probability sampling each individual or unit in a population is given an equal chance of being selected to represent the whole population, (Etikan and Bala, 2017). All members at FMC Finance Harare were given an equal chance to represent the department pertaining to the study hence improving the levels of confidence by removing bias. The sampling technique was chosen because it reduces systematic errors and the inferences acquired from the sample are generalizable, (Alvi, 2016). However, probability sampling is expensive and time consuming.

Stratified Random Sampling

According to Wilson, (2014) stratified random sampling is a technique which ensures that each specific strata (group) is represented consequently. Etikan and Bala, (2017) insinuate that it population units are allocated into distinct identifiable groups and random sampling basis is used to select individual unit from each stratum (category). Each respondent from each group possesses an equal chance of being selected, ensuring that each stratum is fairly represented. The method ensures that different groups of the population are adequately represented in the sample so as to have a true picture and valid results of the research. But, this method carries a disadvantage of, if the strata are not carefully picked, it leads to one sided views coming out of the research nullifying the representation of all groups in the population.

Judgemental sampling

This involves the researcher using own judgement to come up with elements thought to be a representative of the entire population (Wilson, 2014). For the purpose of this study, the researcher will use judgemental sampling because of its characteristics the one being, it is applicable where there is a limited number of people with knowledge on the subject area. In

addition to that, judgemental sampling can also be used where the speciality of an authority can select a more representative sample that can bring more accurate results than by using other probability techniques. The process used by the researcher through purposely handpicking individuals from the respective departments and branches according to the researcher’s knowledge.

3.3.2 Sample Size

A sample size should be reasonable to represent the whole population of a strata, Omair (2014) further stipulate that having a large sample size increases the reliability of obtained data and information. However, Tella (2015) argues that the bigger the sample size does not ensure accuracy in data and information collected. The general rule for sample size is that the sample size should be as large as possible so that representativeness of the sample is increased (<https://www.umsl.edu/~lindquists/sample.html>, accessed on 6/04/2018 0220hrs). The researcher selected a sample size of 78% to ensure reliability of data.

Table 3.2 Accessible population and sample size

Strata	Accessible population	Sample Size	Sample size %
Head of Internal Audit	1	1	100
Assistant Internal Auditors	2	1	50
Internal Audit Interns	2	2	100
Executive Managers	2	1	50
Branch Managers	1	1	100
Supervisors	4	3	75
Loans Officers	16	13	81
Back Office and collections Department	10	8	80
Finance Department	6	5	83
Administration Department	3	2	66
Total	47 (100%)	37(78%)	78

Thirty questionnaires were distributed to all other departments except for the Assistant and Head of Internal Audit, Assistant Internal Auditor Branch and Executive managers and Supervisors, where interviews were conducted in place of questionnaires.

3.4 Sources of Data

Data collection is a very crucial process in a research, (Surbhi, 2016). There are different methods of data collection and they all fall under two categories which are primary and secondary data. The researcher is going to use both primary data only in data collection.

3.4.1 Primary data

As the name suggests, primary data is the first hand data collected by the researcher, (Akrani, 2014). Primary data are fresh, new information collected by the researcher from its original sources in a bid to address the research objectives. Once presented or used up, primary data loses its character of originality and becomes secondary data. Marston, (2014) stated that the major merit for primary data is that it is more credible, trustworthy, reliable and relevant since unnecessary data is excluded by the researcher during the collection process.

However, Surbhi (2016) insinuated that primary data is time consuming and expensive for the researcher. In this case, to note is the proximity to the primary source of data which in this case was Harare FMC Finance Harare offices far away from where the researcher was conducting the research at, all this required finance and time proving to be costly than secondary data.

Considering the pros and cons of using primary data, the researcher found it worth to use primary data since it is authentic and not manipulated by human beings. the data was collected through interviews, questionnaires which were distributed to FMC Finance personnel.

3.4.2 Secondary data

Secondary data is data which was obtained by other researchers for different reasons from those of the present research study. Lowry (2015) defined secondary data as ready-made information which was gathered, organised, compiled and published by others. In contrary to primary data, this source of data is cost effective since the data is readily available and less time is spent on data collection. There is no possibility of prejudice in secondary data that is

the data collected is not subject to bias. According to Akrani (2015), the availability of secondary data from accredited sources made the author have an appreciation of what other previous scholars mentioned about risk based internal audit.

However, data from secondary sources require certain adjustments so that it meets the researcher's specific needs, (Wolf, 2016).

Considering the critics made above, the researcher is going to use primary data only. This is because secondary data will not provide valid information pertaining to the importance RBIA has on the FMC Finance's sustainability and growth.

3.5 Research Instruments

According to Wright et al (2016), a research instrument is a tool to collect data. Thus, research instruments are tools used to collect data that is relevant and applicable to accomplish the research objectives. The major instruments used are questionnaires and interviews. The main advantage of mixing and matching different research instruments is that each method is used for a different purpose (Pradis et al, 2016). In this case, interviews shall be used to get the feel of key issues before embarking on the questionnaire. The questionnaire will be used to collect the much-needed data in full.

3.5.1 Interviews

According to Pradis et al (2016), conducting an interview is characterised by a two-way communication. It involves a question and answer session which addresses the interviewer's concerns. They also noted the various ways of conducting interviews which are, telephone interview, face to face interview and email. Interviews offer flexibility that is, in the interview there is freedom of repeating or rephrasing questions to make sure that they are understood. Its flexibility made the interviews a far superior technique for the exploration of areas, where there was little basis for knowing either what questions to ask or how to formulate them. According to Jamshed (2014), an interview offers a better opportunity than the questionnaire to appraise the validity of information given. On unclarified questions the researcher may ask a more understandable question to seek more clarification and obtain satisfying responses; time is saved and ensures quick responses which enables management to attend their tight schedules they would have neglected to assist in the research (Alshenqeeti, 2014). Same pre-set questions were asked to both the partners during interviews.

It was argued on (<http://www.bbamantra.com/methods-of-data-collection-primary-and-secondary-data/>, accessed on 06/04/2018, 1903hrs) that for an interview to produce good results the interviewer must possess good communication skills. There is no anonymity in interviews hence some information might be withheld hindering the progress of the research. It was costly for the researcher considering travelling costs.

The researcher conducted interviews on the Head of Internal Audit, Assistant Internal Auditor Branch and Executive managers and Supervisors as they are the most responsible persons for risk management and implementation of RBIA hence their responses were more significant to the results of the research.

3.5.2 Questionnaires

Rowley (2014) defines a questionnaire as a list of properly designed questions with the intention of obtaining responses directly linked to the research in study. The questionnaire is a more superficial instrument as compared to interviews and less expensive and large number of respondents are involved. Questionnaires consist of two types of questions that is open ended and closed ended questions, (Allery, 2016).

According to McKee (2015), accuracy is maintained since respondents are given time and chance to freely answer without any pressure. They are also easy to administer and user friendly. The questionnaire provides strategic forward responses because they are carefully designed hence relevant data was obtained. High levels of openness are maintained since respondents are more comfortable to expressing themselves in private, with low pressure. Rowley (2014) also added that consistency is assured in terms of in the results since questions are structured more diligently and they provide a guideline on how to respond.

On the other hand, Zohrabi (2013) argued that once the questionnaires are distributed, the researcher loses control over the questions. There is also a high rate of receiving unduly filled questionnaires and a possibility of omissions of responses.

3.5.2.1 The Likert Scale

The Likert scale is research questionnaire tool aimed at obtaining respondents views and comments in respect of questions and statements presented to them by the researcher, their preferences are then scaled, Mellor and Moore (2014). In this research, a five-point scale was adapted from Kumar (2011) which ranged from strongly agree to strongly disagree. This scale is more useful when incorporated with closed ended questions, it ensures a decision

concerning an issue is made. This approach ensures smooth data collection and respondents are keen to cooperate as its not time consuming. Nemoto and Beglar (2014) points out that the scale guarantees effectiveness and efficiency in data collection.

Table 3.3 The Likert Scale

Attitude	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
Point scale	5	4	3	2	1

Source: Kumar (2011)

3.6 Validity and Reliability of Research Instruments

3.6.1 Validity

For research data to become valid it should be able to address the research objectives and questions, Bolarinwa (2015). Validity aims at evaluating the instruments' ability to measure that which the study intends to explore. In this research, the researcher ensured that the data is valid by making sure that all questions on the questionnaire and interviews covered all the requirements of the research objectives. Boddy (2016) indicates that the validity of research instruments can be hindered by unclear questions, to avoid that the researcher ensured all questions were clear and concise before questionnaires were distributed.

3.6.2 Reliability

Also research data should be reliable, that is data or information gathered through the research instruments should be worthy of dependence to base conclusions. Yasar and Cogenli (2014) regards reliability as linked to the fair representation of the target population eliminating an element of bias. Mohajan (2017) averred that reliability of data in this research was attained as all respondents were asked same questions on both research instruments, thus eliminating bias and errors. Unreliable research data is valueless and lost dependability, Mohamad et al (2014). To ensure data reliability the researcher selected FMC Finance experienced staff to enhance the dependability on questionnaire responses.

3.7 Data Presentation and analysis

Good presentation of data ensures its usefulness; that is, it enables users to visualize, interpret and make sound conclusions on a matter being addressed Kraus (2014). Data gathered was presented in qualitative and quantitative manner, using graphs, charts and tables to ensure understandability. Percentage analysis was also used to present data in accordance with responses from respondents, showing clearly how conclusions were drawn. Data was conveyed to meaningful information through proper data presentation. For data collected from interviews, the analysis and conclusions were drawn by skewing towards the commonly given responses.

Data analysis is a technique of evaluating data incorporating logical reasoning to ensure its validity in the research study.

3.8 Chapter Summary

Research methodology was the main thrust of this chapter, it covered the research design adopted and in this research the justifications. The target population was defined and sample size identified relying on various forms of sampling techniques. Sources of data were critically evaluated and research instruments were chosen to assist in data collection. The validity and reliability of collected data was assessed and evaluated leading to the presentation of data after having observed good practices under research, that is ethical considerations, to protect the research study. The following chapter will be under data presentation and the interpretation thereof.

CHAPTER FOUR

DATA PRESENTATION AND ANALYSIS

4.0 Introduction

In this chapter, questionnaires and interviews were used to collect data. The data obtained from the field research carried out at FMC Finance in line with the research questions and objectives will be interpreted, presented, analysed and discussed in order to make meaningful information. The data collected will be systematically presented on tables, pie charts and graphs.

4.1 Questionnaire Responses

4.1.1 Questionnaire response rate

A total of 30 questionnaires were distributed to FMC Finance Harare staff, and 28 were completed and returned resulting in a favourable response rate of 93.33%.

Table 4.1: Questionnaire response rate

Respondents	Questionnaires distributed	Questionnaires returned	Response rate %
Internal audit interns	2	2	100
Loans officers	13	12	92
Back office and Collections Department	8	8	100
Finance Departments	5	4	80
Administration Department	2	2	100
Total	30	28	93.33

As alluded by table 4.1, the response rate for the questionnaires distributed of 93.33% is regarded as favourable. Okafor and Otalo (2013) highlighted that a response rate of 65% is reasonable and acceptable and they provide a solid basis on which conclusions and recommendations are to be drawn.

4.2 DATA PRESENTATION AND ANALYSIS

4.2.1 Respondents' personal details

a) Position held

The researcher targeted specific groups to ensure that collected data is reliable and valid. This was done due to the importance of diversity of options in the research since different people have different perceptions in the research study and hold different posts.

Table 4.2 Position statistics

Position	Number of respondents	Relative percentage %
Interns internal auditor	2	7.14
Back office and collection officer	8	28.57
Finance officer	4	14.29
Loans officer	12	42.86
Administration officer	2	7.14
Total	28	100

b) Qualifications

The research required respondents to have a knowledge about auditing and risk assessment, hence the need to know the professional qualifications held by each respondent. The graph below shows FMC Finance staff's educational and qualification levels so that validity and reliability of data is maintained.

Table 4.3 Qualifications distribution

Qualification	Number	Percentage %
Under Grad Risk and Insurance	4	14.29
Under Grad Banking and Finance	6	21.43
B. ACC	8	33.33
CTA	2	8.33
ACCA	3	12.50
CA	2	8.33
CIMA	3	12.5
CIA	0	0
Total	28	100

Figure 4.1 Qualifications distribution



Figure 4.1 shows 21.43% (6/24) of the respondents holding a first degree in Banking and Finance and 14.29% (4/24) with a first degree in Risk and Insurance. Of the respondents, 33.33% (8/24) B.ACC, 8.33% (2/24) CTA, 12.50% (3/24) ACCA 8.33% (2/24) CA and 12.5% (3/24) CIMA.

This shows that 100% of the respondents are qualified and they can understand and respond to the questions asked in the questionnaires making the collected data reliable and valid.

c) Work experience

Table 4. 4 Respondents work experience

Years	Below 1 year	1-<5 years	5-< 10 years	Over 10 years
Number of Respondents	4	6	10	8
Relative percentage %	14.28	25	35.71	33.33

Work experience has a great impact on the opinions and perceptions of the respondents with regards to risk management and internal auditing. Most of FMC Finance staff are experienced in risk management and internal auditing as most of them have work experience of more than one year. Table 4.4 shows that most of the respondents have work experience from 5 years to over 10 years implying that the respondents have adequate experience to provide valid and reliable data for the research.

4.3 RESPONSES RELATED TO RESEARCH STUDY

4.3.1 The Internal Audit Function audits the financial statements and compliance

The participants were asked if the internal audit function is to auditing financial statements and to perform compliance checks. This question seeks to confirm the current approach being used by the internal audit function.

Table 4.5 Internal Audit Function audits financial statements and compliance

Responses	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree	Total
Respondents	13	11	3	1	0	28
Percentage %	46.43	39.29	10.71	3.57	0	100

The table 4.5 shows that 46.43% strongly agree and 39.29% agree that currently the internal audit function is auditing financial statements and performing compliance checks. 3.57% disagree, 0% strongly disagree and 10.71 neither agree nor disagree.

Overall, 85.72 % are on the agreeing side that the internal audit only audits financial statements and checks whether FMC staff are complying to the internal controls and FMC code of conduct.

4.3.2 Risks affecting FMC Finance

The question seeks to justify the major risks affecting the operations of FMC Finance.

It was found that FMC Finance is exposed to credit risk, interest rate risk, liquidity risk and operational risk. The graph below shows that 60.71% of the respondents strongly agree, 28.57% agree, 10.71% disagree, 0% neither agree nor disagree 0% strongly disagree that FMC Finance is exposed to credit risk. A total of 89.28% agree that FMC Finance is exposed to credit risk. Table 4.6 also shows that 32.14% strongly agree, 53.57 agree, 7.14% disagree, 7.14% strongly disagree and 0% is neutral that the organisation is exposed to liquidity risk giving a total of 85.71% agreeing that FMC Finance is exposed to liquidity risk.

Table 4.6 Risks FMC Finance is exposed to

Response	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree	Total
i) Credit Risk	17	8	0	3	0	28
Response Rate	60.71%	28.57%	0%	10.71%	0%	100%
ii) Liquidity Risk	9	15	0	2	2	28
Response Rate	32.14%	53.57%	0%	7.14%	7.14%	100%
iii) Interest Rate Risk	10	13	0	2	3	28
Response Rate	35.71%	46.43%	0%	7.14%	10.71%	100%
iv) Operational Risk	11	13	0	1	3	28
Response Rate	39.29%	46.43%	0%	3.57%	10.71%	100%

Figure 4.2 Risks affecting FMC Finance

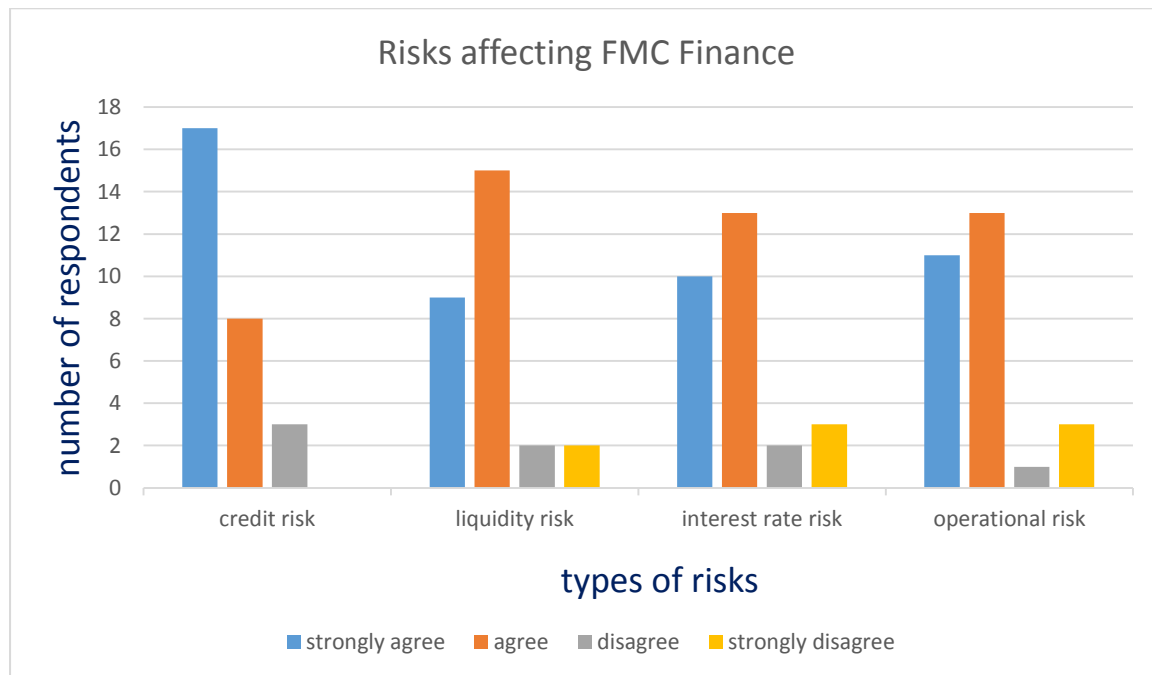


Table 4.6 indicates that 60.17% strongly agreed, 28.57% agreed, 10.71% disagreed, 0% strongly disagreed and 0% were neutral that FMC Finance is exposed to credit risk. Of the respondents, 32.14% strongly agreed, 57.57% agreed, 0% were neutral, 7.14% disagreed and 7.14% strongly disagreed that FMC Finance is exposed to liquidity risk. This implies that considering the nature of the business and the current economic environment, the company is always exposed to different types of risks which affects its growth and sustainability.

Of the respondents 35.71% strongly agreed, 46.43% agreed, 7.14% disagreed, 10.71% strongly disagreed and zero neither agreed nor disagreed to the point that FMC Finance is suffering from Interest rate risk. It is also shown that 46.43% strongly agreed, 39.29% agreed, 3.57% disagreed and 10.71% strongly disagreed that FMC Finance is also exposed to operational risk.

This was supported by interview question one responses which stated that FMC Finance is a risk naïve company hence it is exposed to credit risk, liquidity risk, interest rate risk and operational risk. Dube and Matanda (2015), Asongo and Nyor (2014) and Gietzen (2017) were also in support that an MFI is exposed to different types of risks due to its nature of business.

4.3.3 Adequate attention is being given to the risks

The question aimed to identify whether the risks are being managed effectively within the organisation.

Table 4.7 Attention given to risks

Responses	Strongly agree	Agree	Neutral	Disagree	Strongly disagree	Total
Number of respondents	8	1	3	11	5	28
Percentage %	28.57	3.57	10.71	39.29	17.86	100

Figure 4.3 Attention given to risks identified

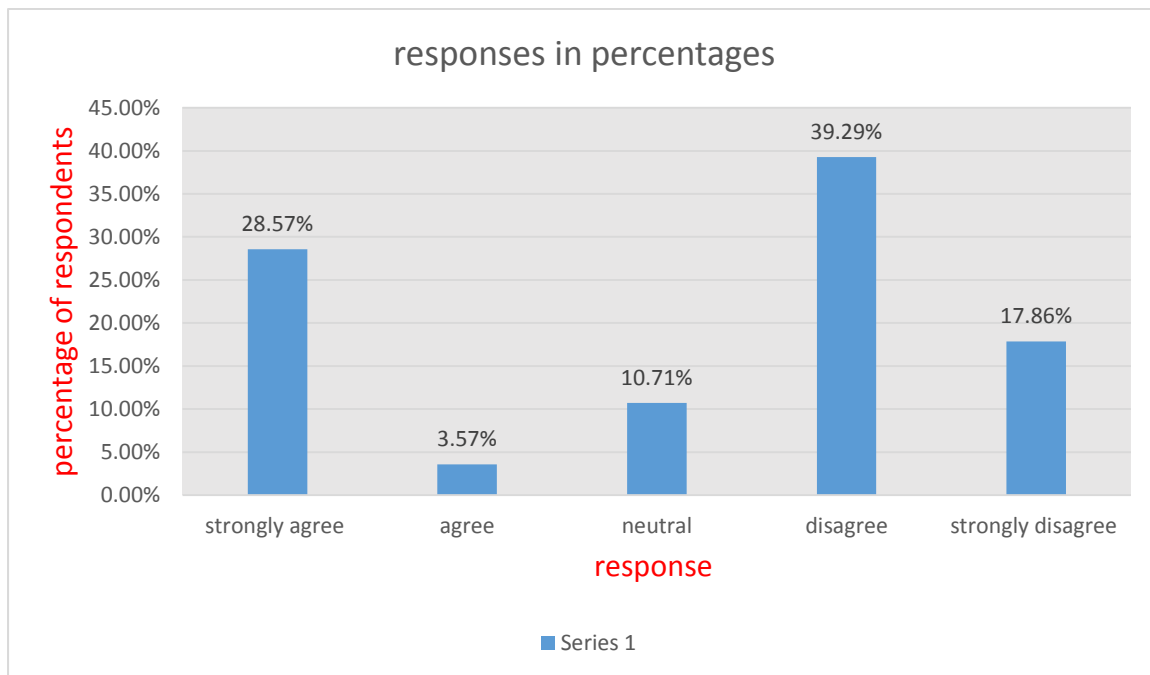


Fig 4.3 alluded that 17.86% strongly agreed, 39.29% agreed, 10.71% were neutral, 28.57% disagreed and 3.57% strongly disagreed that adequate attention is being given to the risks identified.

Overallly 32.14% agreed and 67.86% disagreed.

The majority of the interviewees on interview question number two were of the view that attention is given to the risks and measures to reduce their effects are being established. But however this does not resonate with questionnaire responses which shows that risks are not being adequately attended to. According to The Microfinance Industry Report (2015), there is poor portfolio quality in MFIs as shown by worsened PAR due to credit risk.

4.3.4 FMC Finance has a risk management Framework

The question was asked to identify if FMC Finance has a risk management framework in place.

Table 4.8 Availability of risk management framework

Responses	Strongly agree	Agree	Neutral	Disagree	Strongly disagree	Total
Respondents	2	4	3	7	12	28
Percentage %	7.14	14.29	10.71	25	42.86	100

As alluded by table 4.8, a total of 67.86% (19/28) disagree that there is a risk management framework at FMC Finance and 21.43% (6/28) agree that FMC Finance has a risk management framework in place. Of the respondents (3/28) 10.71% are uncertain of whether there is or there is not a risk management framework at FMC Finance.

Overall, 78.57% disagreed and 21.43% agreed that FMC Finance has a risk management framework.

Literature from Dugguh and Diggi, (2015) says that an organisation should have a risk management framework.

4.3.5 The role of the Internal audit in risk management

Participants were asked on their expectation regarding the role of the internal audit in risk management.

Table 4.9 Roles of the internal audit in risk management

Response	Strongly agree	Agree	Neutral	Disagree	Strongly disagree	Total
i) Imposing risk management processes	2	4	3	6	13	28
Response rate %	7.14	14.29	10.71	21.43	46.43	100
ii) Taking decisions on risk responses	1	3	3	9	12	28
Response rate %	3.57	10.71	10.71	32.14	42.86	100
iii) Setting risk appetite	0	2	2	10	14	28
Response rate %	0	7.14	7.14	35.72	50	100
iv) Giving assurance	15	9	0	3	1	28
Response rate %	53.57	32.14	0	10.72	3.57	100
v) Reviewing management of	13	10	1	3	1	28

risks						
Response rate %	46.43	35.71	3.57	10.72	3.57	100

i. Imposing risk management processes

According to the responses, 46.43% (13/28) strongly disagreed and 21.43% (6/28) disagreed and 10.71% were neutral making a total of 67.86% disagreeing that it is the responsibility of the internal audit to impose risk management processes. Only a total of 21.43% agree that the internal audit function should impose risk management processes. In the literature it was highlighted by the Institute of Internal Auditors (2014) that risk management processes are established by the management not the internal auditors. This is in controvert with the responses from interview question three whereby the respondents answered that the internal audit is responsible for managing risks.

ii. Taking decisions on risk responses

In agreement to this role is a total of 14.28%, 10.71% are neutral and 75% disagree that taking decisions on risk responses is one of the roles of the internal audit in risk management. Therefore, it is not the duty of the internal audit function to make decisions on risk responses as supported by (Matenhese, 2014) in literature.

iii. Setting risk appetite.

From the table above, it is shown that 0% strongly agree and 7.14% agree that the internal audit is responsible for setting risk appetite. 7.14% is neutral, 35.72% disagree and 50% strongly disagree that risk appetite is set by the internal audit.

Overallly 92.86% agreed and 7.14% disagreed.

This shows that internal auditors are not responsible for setting risk appetite as supported by interview question number seven whereby the interviewees felt that management is responsible for setting risk appetite. This is also supported by www.broadleaf.com.au, accessed 1454hrs 20/03/2018.

iv. Giving assurance

It is evidenced from the table above that 15/28 (53.57%) strongly agreed, 10/28 (35.71%) agree, 0% neither agreed nor disagreed, 3/28 (10.22%) disagreed and 1/28 (3.57%) strongly disagreed that the internal audit function's role is to give assurance.

In total 89.28% agreed and 13.79% disagreed.

This shows that internal auditors are responsible for giving assurance to the board of directors that the risks are being correctly evaluated and giving assurance on the risk management processes (IIA, 2014).

v. Reviewing management of risk

The table indicates that 46.43% (13/28) of the respondents strongly agreed, 35.71% (10/28) agreed, 3.57% (1/28) were neutral, 10.71% (3/28) disagreed and 3.57% (1/28) strongly disagreed to the point that reviewing management of risks is a role of the internal audit.

Generally, a total of 82.14% (23/28) agreed and 14.28% (4/28) disagreed.

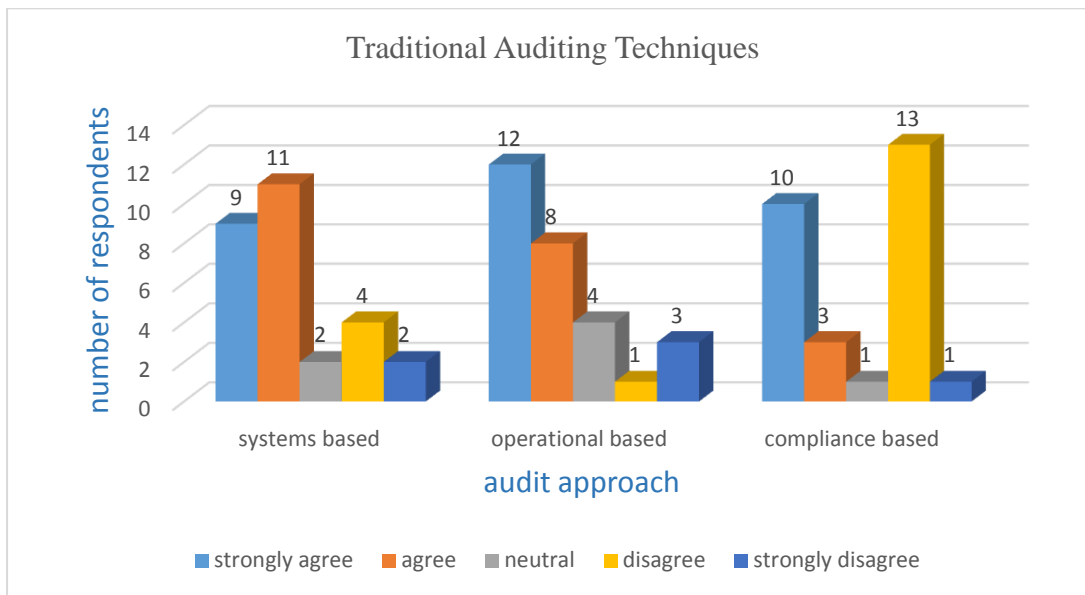
This therefore concludes that it is one of the internal audit's roles to review the management of risk as supported by (Williams, 2017). Interview question seven supports this as interviewees highlighted that the internal audit should review the risk management practices implemented by management to ensure that they are effectively managing risks to within the organisational risk appetite.

4.3.6 Traditional techniques are no longer adequate for FMC Finance

Table 4.10 Traditional Auditing Techniques

Response	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree	Total
i) Systems Based	9	11	2	4	2	28
Response rate %	32.14	39.29	7.14	14.29	7.14	100
ii) Operational Based	12	8	4	1	3	28
Response rate %	42.89	28.57	14.29	3.57	10.71	100
iii) Compliance Based	10	3	1	13	1	28
Response rate %	35.71	10.71	3.57	46.43	3.57	100

Figure 4.4 traditional auditing techniques



i. Systems based

From the graph it is alluded that a total of 20/28 (71.42%) agreed, 6/28 (21.43%) disagreed and 2/28 (7.14%) were neutral that systems based techniques are no longer adequate for FMC Finance

Therefore, it can be concluded that systems based auditing techniques are no longer adequate for FMC Finance as reinforced by (Grant Thornton and Internal Audit, 2011)

ii. Operational based

It is indicated by the graph that 12/28 (42.86%) strongly agreed, 8/28 (28.57%) agreed, 4/28 (14.29%) neither agreed nor disagree, 1/28 (3.57%) disagreed and 3/28 (10.71%) strongly disagreed that operational auditing techniques are no longer adequate for the organisation.

Overallly a total of 71.43% agreed and 14.28% disagreed.

It can therefore be concluded that operational auditing techniques are no longer adequate for FMC Finance. This is buttressed by answers for interview question eight on which it was responded that, unlike operational and compliance based approaches, RBIA focuses on poorly or overly controlled risks.

iii. Compliance based

As evidenced by figure 4.4 10/28 (35.71%) strongly agreed, 3/28 (10.71%) agreed, 1/28 (3.57%) were neutral, 13/28 (46.43%) disagreed and 1/28 (3.57%) strongly disagreed that compliance based is no longer adequate for FMC Finance.

Overally a total of 46.42% agreed and 53.57% disagreed.

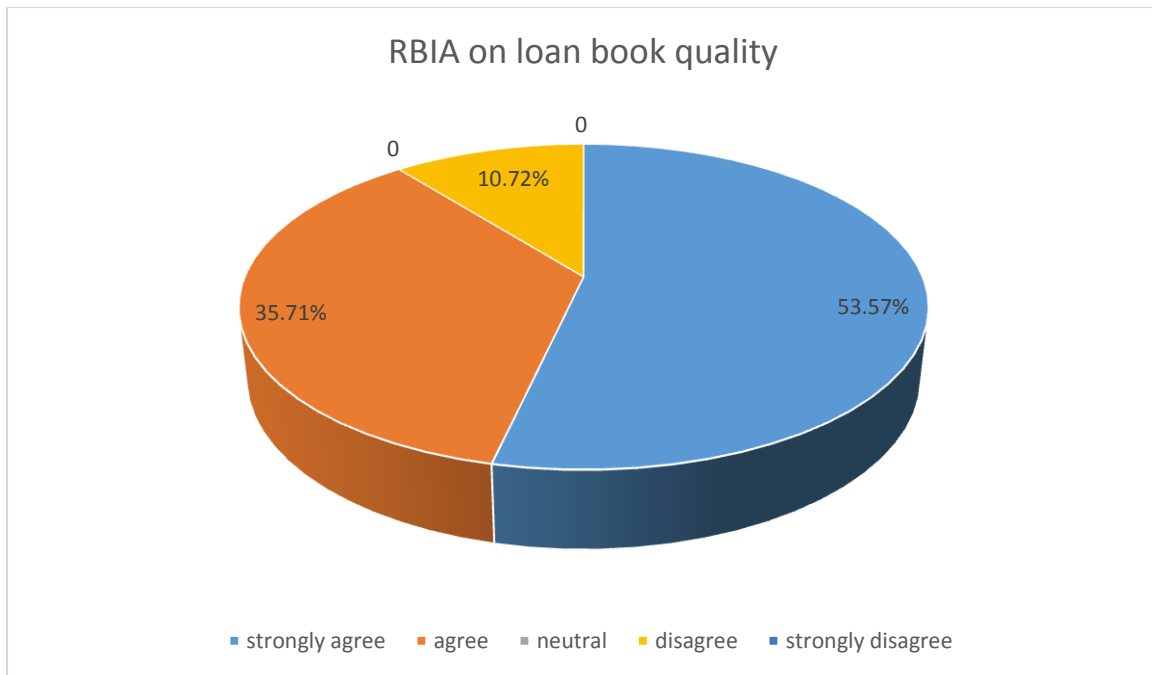
This therefore shows that compliance based are still adequate. They should be used in the internal audit to make RBIA more effective as supported by Vasvári (2015) who stated that compliance based approach ensures that risk management practices are being adhered to.

4.3.7 Implementing RBIA improves the loan book quality

Table 4.11 Implementing RBIA improves the loan book quality

Response	Strongly agree	Agree	Neutral	Disagree	Strongly Disagree	Total
Response rate	15	10	0	3	0	28
Percentage %	53.57	35.71	0	10.72	0	100

Figure 4.5 implementing RBIA improves the loan book quality



The research findings indicate that if FMC Finance implements RBIA it improves the loan book quality. This is shown by 53.57% of the respondents strongly agreeing and 35.71% agreeing that RBIA approach improves the quality of the loan book. This is supported by Mbira and Tapera (2016) as they highlighted that implementing RBIA will reduce the PAR levels.

4.3.8 FMC Finance has the following resources for implementing RBIA

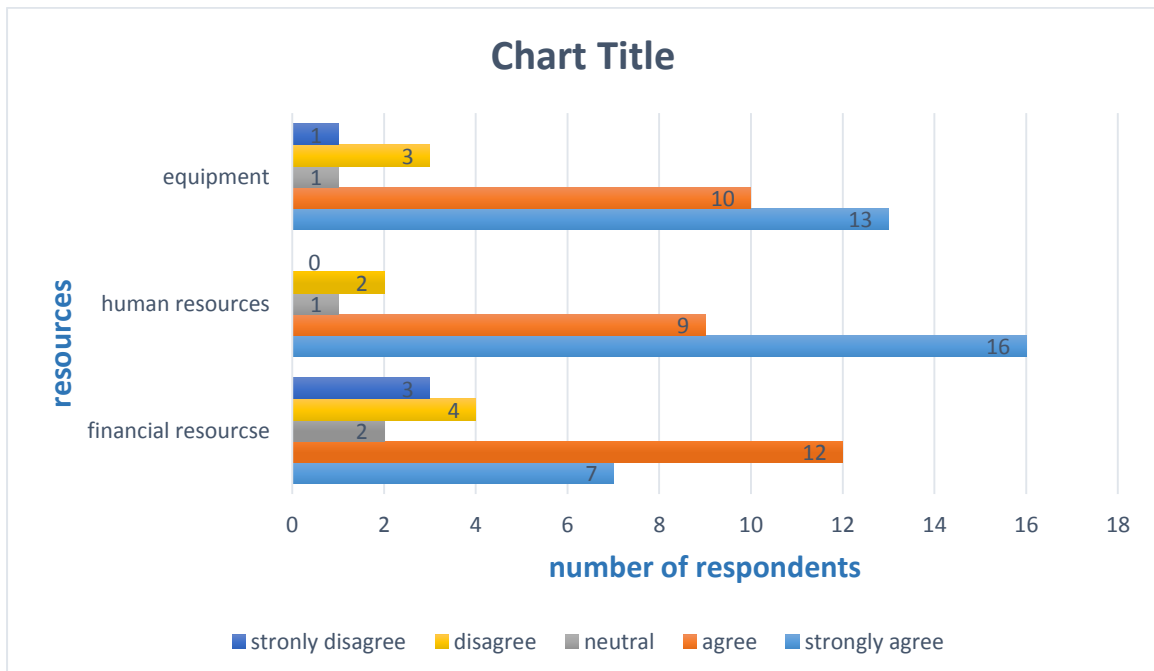
The question seeks to identify if adequate resources are available at FMC Finance for the implementation of RBIA.

Table 4.12 Availability of resources for implementing RBIA

Response	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree	Total

Financial resources	7	12	2	4	3	28
Response rate %	25	42.89	7.14	14.29	10.71	100
Human Resources	16	9	1	2	0	28
Response rate %	57.14	32.14	3.57	7.14	3.57	100
Equipment	13	10	1	3	1	28
Response rate %	46.43	35.71	3.57	10.71	3.57	100

Figure 4.6 Resources for implementing RBIA at FMC Finance



i. Financial resources

Fig 4.6 shows that 7 out of 28 (25%) respondents strongly agreed, 12 out of 28 (42.86%) agreed, 2 out of 28 (7.14%) were neutral, 4 out of 28 (14.29%) disagreed and 3 out of 28

(10.71%) strongly disagreed to the point that financial resources are available for the implementation of RBIA at FMC Finance.

In total, 67.86% agreed and 32.14% disagreed.

Therefore, it can be concluded that in as much as financial resources are concerned, RBIA can be implemented at FMC Finance. Grant Thornton and Internal Audit (2011) highlighted that RBIA is cost saving since more resources are channelled towards risky areas.

i. Human resources

It is indicated by fig 4.6 that 16 out of 28 (57.14%) strongly agreed, 9 out of 28 (32.14%) agreed, 1 out of 28 (3.57%) were neutral, 3 out of 28 (10.71%) disagreed and 1 out of 28 (3.57%) strongly disagreed that FMC Finance has human resources for the implementation of RBIA.

Generally, 89.29% agreed and 14.28% disagreed.

This implies that FMC Finance has human resources for the implementation of RBIA. This is also supported by the qualifications of the questionnaire respondents which shows that there a number of staff members with relevant professional qualifications and work experience who can implement RBIA. Interview question five responses also reinforces this

ii. Equipment (Hardware and Software)

As alluded by fig 4.6, there are 13 out of 28 (46.43%) who strongly agreed, 10 out of 28 (35.71%) agreed, 1 out of 28 (3.57%) neutral, 3 out of 28 (10.71%) disagreed and 1 out of 28 (3.57%) strongly disagreed that FMC Finance has the equipment for the implementation of RBIA.

In total, 82.14% agreed and 14.28% disagreed.

FMC Finance has adequate equipment for the implementation of RBIA.

Collectively, it can be concluded that it is possible for FMC Finance to implement RBIA since it has adequate resources (equipment, financial and human resources) which are relevant for the implementation to be successful.

Overall, FMC Finance has adequate resources to implement RBIA as supported by interview question number seven whereby the interviewees stated that it is possible for FMC Finance to implement RBIA considering that it has all resources required for effective implementation.

4.3.10 RBIA enables more efficient use of resources

Table 4.13 RBIA enables more efficient use of audit resources

Response	Strongly agree	agree	neutral	Disagree	Strongly disagree	Total
Number of respondents	11	9	3	3	2	28
Percentage %	39.29	32.14	10.71	10.71	7.14	100

Figure 4.7 RBIA enables efficient use of audit resources

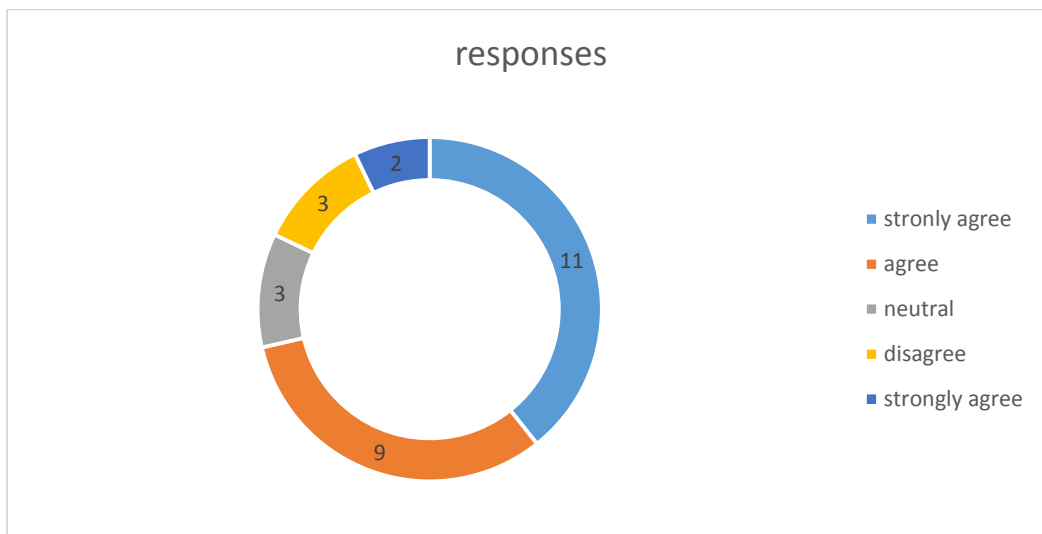


Fig 4.7 shows the responses on the efficient use of internal audit resources. Out of 28, 11 of the respondents strongly agreed, 9 agreed, 3 neither agreed nor disagreed, 3 disagreed and 2 strongly disagreed that implementing will enable more efficient use of internal audit resources.

Overall, 20 out of 28 (71.43%) agreed and 8 out of 28 (28.57%) disagreed.

This concludes that implementing RBIA enables more efficient use of internal audit resources. At the planning stage high risky areas are identified and more resources are then

channelled towards the risky areas therefore improving the financial performance of the organisation (Muraguri, 2016).

4.3.11 Implementing RBIA will enable the sustainability of FMC Finance

Table 4.14 RBIA enable sustainability of FMC Finance

Responses	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree	Total
Number of respondents	8	9	5	2	4	28
Percentage %	28.57	32.14	17.86	7.14	14.29	100

Table 4.11 highlights that 28.57% strongly agreed, 32.14% agreed, 7.14% disagreed, 14.29% strongly disagreed and 17.86 neither agreed nor disagreed that implementing RBIA will enable the sustainability of the company under review.

In total, 60.17% of the respondents agreed and 39.29% disagreed.

This concludes that sustainability can also be enabled by implementing RBIA. Considering the nature of the business FMC Finance is engaged in and the economic environment in which it is operating, high returns comes from taking risks but these risks needs to be monitored to ensure the ongoing of the company. This is supported by Ogega, Kibati and Koima (2017) as they alluded that RBIA will enable effective planning and allocation of financial resources so that more resources are channelled towards highly profitable and risky areas.

4.1.2 Interviews response rate

Interviews were conducted on more experienced and busy personnel such as the branch and executive managers, the head and assistant auditors. The response rate was acceptable and reasonable since 6 out of 7 planned interviews were conducted giving a response rate of 86%.

Table 4.15: Interviews response rate

Respondents	Selected sample	Inter views conducted	Response rate %
Head of Internal Audit	1	1	100
Assistant Internal Auditors	1	1	100
Branch Managers	1	1	100
Executive Managers	1	1	100
Supervisors	3	2	66.67
Total	7	6	85.71

4.4 Response from interviews

Q1: What are the major risks affecting FMC Finance?

The interviewees responded that since FMC Finance is a risk naïve company it is exposed to a number of risks. They mentioned that operational risk is affecting the organisation due to its complexity. It is also affected by interest rate risk from the changes in interest rates in Zimbabwe leading to losses. They added that credit risk is one of the major risks which is hindering the growth of the organisation. Credit risk was said to be the mother of liquidity risk because if the company fails to collect the principal and interest due it is likely to suffer liquidity problems thereby affecting the performance of the company. Asongo and Nyor (2014) in literature review supported that. The respondents also noted that competition has been stiffening for the past three years and the need to pay special attention to market risk became high. This is in synch with responses from question five in the questionnaire which highlighted that FMC Finance is exposed to credit, liquidity, interest rate, and operational risks.

Q2: How effective are the risk management processes within the organisation?

Interviewees were of the view that risks are being managed effectively in the organisation by the internal audit department. They stated that the internal audit performs risk assessment process at the planning stage and distribute audit resources towards risky areas for effective audit performance. This is in paradox with the responses in the question number

Q3: Whose responsibility is it to manage risks between management and internal audit?

The interviewees thought that it is the responsibility of the internal auditor to manage risks in the company. They also mentioned that the internal audit is responsible for identifying risky areas, measuring the risks and monitoring risks for the organisation. It was also stated that the management is only responsible for setting organisational risk appetite. However, this is conflicting with the literature reviewed from Williams (2017) who noted that management manages risks and the internal audit reviews the risk management processes.

Q4: What do you understand by RBIA?

The interviewees understood RBIA as a methodology that provides assurance that risks are being managed to within the risk appetite of the organisation. Griffiths (2013) stated that RBIA provides assurance to the board that risk management processes are managing risks effectively.

Q5: Is it possible for FMC Finance to implement RBIA? Motivate your answer.

It was responded that it is possible for FMC Finance to implement RBIA. FMC Finance has all the resources required for a successful implementation of RBIA. This is supported by the responses of question eleven on which the respondents affirmed that FMC Finance has equipment, financial and human resources required for effective implementation. However, literature reviewed that the company should first put in place a risk management framework for the implementation to be successful and effective. This was supported by Nair (2015) as it was reviewed that for an organisation to effectively implement RBIA it should have a risk management framework and set a risk appetite.

Q6: What are the benefits of implementing RBIA particularly on the sustainability of the organisation?

The interviewees responded that Implementing RBIA have positive benefits towards FMC Finance's sustainability. Implementing RBIA enables quick identification of risks before they affect the organisation and ways of mitigating the impacts are established. Some were of the view that RBIA provides a proactive action on risk management especially those risks that affect funding for new loans, such as credit and liquidity risks, so that clients do not leave the company for its competitors. This is supported by the responses for question thirteen of the

questionnaire which indicates that RBIA enables sustainability of the organisation under review. Others were of the view that taking risks results in better rewards so RBIA will enable management to understand the possible risks and their possible effects as supported by (Muraguri, 2014). Question ten of the questionnaire supports this as the majority of the respondents agreed that implementing RBIA will improve the loan book quality.

Q7: If RBIA is implemented what is the role of the internal audit function?

The interviewees felt that the role of the internal audit in risk management was to manage risks. They stated the internal audit should identify, measure and monitor the risks. This is differing from the responses on question eight of the questionnaire on which the majority of the respondents explicitly excluded the identifying, measuring and monitoring of risks as a responsibility of internal audit function.

They also added that the internal audit is there to give maximum support to the management and advise management on risk response decisions. This is supported by Coetzee and Lubbe (2014).

Q8: What is the contribution of RBIA towards the growth of FMC Finance?

The interviewees responded that RBIA contributes towards the growth of the FMC Finance. They mentioned that RBIA reduces the impacts of risks which are currently affecting the growth of the clientele base and global loan book negatively. They also added that RBIA enables the internal audit function to save time and resources by focusing on risky areas and improving the financial performance of the company. Interviewees insinuated that the growth of FMC Finance considering its nature and the economic environment it is operating in is dependents on risk taking so those risks need to be continuously managed. Mbira and Tapera in literature review supported this response as they averred that failure to capitalise in risk management will result in excessively high PAR levels resulting in losses and the erosion of the capital base for disbursements.

4.5 Chapter summary

Chapter four provided the presentation and analysis of data collected in the research study through the research instruments which are questionnaires and interviews. A brief discussion was made on the findings of the data. The next chapter will look at the conclusions drawn from the research data and the recommendations thereon.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.0 Introduction

The researcher is going to present the whole research study on the importance of Risk Based Internal Audit on the growth and sustainability of microfinance institutions in a condensed form. The summary of chapters, summary of findings, conclusions and recommendations will be presented in this chapter.

5.1 Chapter summaries

The entire research was centred on the importance of Risk Based Internal Audit on the growth and Sustainability of microfinance institutions. Key research components such as, background of study, research objectives, sub-research questions, statement of the problem were laid in chapter one. These included the changes in the loan book, clientele base, the identification of existing auditing approaches (traditional auditing approach) and their effectiveness, the importance of RBIA on the sustainability and growth of microfinance institutions. In this research a case study of FMC Finance was used. Also, the significance of the study was laid out together with the limitations and assumptions.

The reviewing of literature from prior scholars' literature and findings regarding the research topic was done in chapter two. The researcher used books, academic journals, websites and articles to critically analyse other researchers' findings and contributions. Literature from other scholars and authors gave the researcher an insight on the importance of Risk Based Internal Audit on the growth and sustainability of FMC Finance. The Chartered Institute of Internal Auditors defined RBIA as a methodology that provides assurance that risks are being managed to within the risk appetite of the organisation. To achieve that, the internal audit reviews the risk management processes implemented by the management to ensure that they are adequate to effectively reduce the impacts of risks, (Benli and Celayir, 2014). Mbira and Tapera (2016) also insinuated that the more an MFI capitalise in risk management practices, the more it is likely to succeed. The success of an MFI is measured by the increase or decrease in number of active clients, PAR, loan book and profitability.

A systematic view of how the research was carried out in the field and the research methodology was clearly outlined in chapter three. The researcher adopted descriptive research design together with the case study research design to collect data which is relevant to answer sub-research questions of the study. Targeted and accessible population was selected from Finance department, Back Office and Collections department, Internal audit department, Administration Department and Front office department. A sample of thirty-seven (37) participants was selected. Judgemental sampling was used to select the sample. Questionnaires and interviews were used as research instruments for data collection.

Data collected was presented and analysed to become meaningful information in chapter four. 93.33% was the response rate since 28 out of 30 accessible population responded and returned fully answered questionnaires and 6 out of 7 (88.71%) of the interviews were conducted. Collected data was presented on graphs, pie charts and tables. Percentages were also used to analyse the data.

5.2 Summary of major findings

5.2.1 Major risks affecting FMC Finance

It was found that FMC Finance is exposed to credit risk, liquidity risk, interest rate risk, market risk and operational risk. These risks are affecting the operations of FMC Finance and hence need to be managed effectively.

5.2.2 Non-existence of risk management framework

There is no risk management framework at FMC Finance and risks are being managed by the internal audit. Therefore, the possible occurrences and the negative impacts of the uncertainties are high. This therefore propounds that risks are not being managed effectively by MFIs. Therefore, it can be concluded that risks are not being attended to at FMC Finance. This is evidenced by a decrease in the gross loan book as highlighted in chapter one.

5.2.3 The role of the internal audit in risk management

It was found that the role of the internal audit is to manage the risks by identifying, measuring and monitoring the risks. This differs from the reviewed literature by IIA (2014), Williams (2017). The internal audit gives assurance to the board that the risk management policies are adequate to effectively manage the risks to within the organisation's risk appetite. It was also

found that the internal audit should not make decisions on risk responses since it is the management's responsibility to take decisions and set risk appetite for the organisation.

5.2.4 The importance of RBIA on the growth and sustainability of FMC Finance

RBIA enables more efficient use of internal audit resources since more resources are channelled towards risky areas rather than concentrating on internal controls and compliance checks. It also helps to identify the major risks which are likely to come along the way and ways of mitigating the risks are established and implemented to reduce the impacts of the risks. It was also found that FMC Finance is taking risks for better rewards so these risks need to be managed to enable a sustainable growth of the organisation hence RBIA can be implemented to reduce unexpected future losses which hampers growth of the organisation.

5.2.5 Adequate attention is being given to risks

It was found that risks are not adequately attended to at FMC Finance. This is evidenced by the responses from question six of the questionnaire on which the majority disagreed that adequate attention is given to risks. This is in contradiction with interview answers to question two which shows that there is effective risk management within the organisation. It can therefore be concluded that risks are not being managed effectively since there is no risk management framework within the organisation and the internal audit is the one responsible for managing the risks and providing assurance that risks are being managed to within the risk appetite of the organisation thereby compromising its objectivity.

5.3 Conclusion to the research

The results from the findings indicate that the research was a success. The results clearly identify the major risks affecting FMC Finance despite the fact that the company has no risk management framework. Therefore, it can implement RBIA through the use of the internal audit function which can perform risk driven audits and supports the achievement of the company's objectives to enable the sustainability of the organisation.

5.4 Recommendations

- The board should establish a strategy that will establish a risk management framework and a risk management team which will maintain a risk register to ensure that risks are being managed effectively. The board should constantly monitor the risk

management team to ensure that risks are being managed to within the organisation's risk appetite.

- The researcher also recommends that the internal audit should discard the traditional audit approach and adopt the risk based internal audit approach since this approach saves resources and adds value to the organisation, (Benli and Celayir, 2014).
- Internal audit function must play a crucial role in overseeing all components of risk management (IIA, 2014).
- FMC Finance should provide training on RBIA to all internal auditors and management so that they get an appreciation on how the audit approach can be implemented in the organisation.
- The internal audit should perform its risk assessment at the planning stage rather than to rely on risk assessment performed by management to ensure that all risks are incorporated in risk management and are being managed effectively (Coetzee and Lubbe, 2014). The board should therefore constantly review the internal audit reports to ensure that the internal audit is supporting the strategic objectives of the company.

5.5 Areas of further research

The research did not cover all corners of RBIA. The researcher proposes further researches on the impacts of RBIA on financial performance of MFIs in Zimbabwe.

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APENDIX A
LETTER OF REQUEST



Midlands State University

P. Bag 9055

Gweru

9 April 2018

Dear Sir/ Madam

RE: REQUEST TO COLLECT RESEARCH DATA FROM YOUR ORGANISATION

I am a final year student at Midlands State University studying for a Bachelor of Commerce Accounting Honors Degree. I am doing a research project on the Importance of Risk Based Internal Auditing on the Growth and Sustainability of FMC Finance Harare. To make the research a success, I kindly request for your permission to collect research data from your organisation. The data will be solely used for academic purposes only and a high level of confidentiality will be maintained over the data.

Your contribution towards the research is greatly appreciated.

Yours sincerely

Esnath Mataruse

Reg No: R146308P

Cell No: 0779498860

APENDIX B



QUESTIONNAIRE

This questionnaire has been administered by Esnath Mataruse, a student from the Midlands State University. The student needs to assess the importance of Risk Based Internal Auditing on the Growth and Sustainability of the organisation. The data obtained will be used solely for academic purposes and high levels of confidentiality will be maintained over the data. Your cooperation is highly appreciated.

Instructions

1. Do not write your name on the questionnaire
2. Show response by ticking the respective answer box where applicable and or filling in the spaces provided
3. If not certain of your response omit the question

PART A

1. Position.....
 2. Work experience
a) Below 1 year b) 1-<5yrs c) 5-<10 yrs d) over 10yrs
 3. Qualifications
B.ACC ACCA CIA CA
Other
- Specify.....

PART B

4. The internal audit function audits the financial statements and compliance
 Agree Strongly agree Neutral Disagree Strongly disagree
5. FMC Finance is exposed to the following major risks
- i. Credit Risk
 Agree Strongly agree Neutral Disagree Strongly disagree
- ii. Liquidity Risk
 Agree Strongly agree Neutral Disagree Strongly disagree
- iii. Interest rate risk
 Agree Strongly agree Neutral Disagree Strongly disagree
- iv. Operational Risk
 Agree Strongly agree Neutral Disagree Strongly disagree
6. Adequate attention is being given to the risks
 Agree Strongly agree Neutral Disagree Strongly disagree
7. FMC Finance has a risk management framework
 Agree Strongly agree Neutral Disagree Strongly disagree
8. Your expectation regarding the role of the internal audit in risk management is:
- i. Risk assessment
 Agree Strongly agree Neutral Disagree Strongly disagree
- ii. Taking decisions on risk responses
 Agree Strongly agree Neutral Disagree Strongly disagree
- iii. Setting risk appetite
 Agree Strongly agree Neutral Disagree Strongly disagree
- iv. Giving assurance that risks are being managed within the risk appetite
 Agree Strongly agree Neutral Disagree Strongly disagree
- v. Reviewing the management of risks
 Agree Strongly agree Neutral Disagree Strongly disagree
9. The following Traditional Auditing Techniques are no longer adequate for FMC Finance
- i. Systems based

Agree Strongly agree Neutral Disagree Strongly disagree

ii. Operational based

Agree Strongly agree Neutral Disagree Strongly disagree

iii. Compliance based

Agree Strongly agree Neutral Disagree Strongly disagree

10. Implementing risk based internal auditing improves the loan book quality

Agree Strongly agree Neutral Disagree Strongly disagree

11. FMC Finance has the following resources for implementing RBIA

i. Financial Resources

Agree Strongly agree Neutral Disagree Strongly disagree

ii. Human Resources

Agree Strongly agree Neutral Disagree Strongly disagree

iii. Equipment (Hardware and Software)

Agree Strongly agree Neutral Disagree Strongly disagree

12. RBIA enables more efficient use of Internal Audit resources

Agree Strongly agree Neutral Disagree Strongly disagree

13. Implementing RBIA will enable the sustainability of FMC Finance.

Agree Strongly agree Neutral Disagree Strongly disagree

APENDIX C



INTERVIEW QUESTIONS GUIDE

1. What are the major risks affecting FMC Finance?
2. How effective are the risk management processes within the organisation?
3. Whose responsibility is it to manage risks between risk management and internal audit?
4. What do you understand by Risk Based Internal Auditing?
5. Is it possible for FMC Finance to implement RBIA? Motivate your answer.
6. What are the possible benefits of implementing Risk Based Internal Audit particularly on the sustainability of the organisation?
7. If RBIA is implemented what is the role of the internal audit?
8. What is the contribution of RBIA towards the growth of the organisation?