

# **The Role of Internal Audit in Evaluating the Financial Performance at Sudanese Banks (Case Study in Omdurman National Bank)**

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## **Abstract**

The study aimed at; concluding whether there is statistical relationship between the internal audit and the evaluation of the financial performance, identifying whether there is a statistical relationship between the internal audit and the quality of the financial analysis, identifying the role of the internal audit on the control of preparing of planning budgets, and identifying the impact of internal audit on the control of the cash flow, The problem of the study was represented in, the misunderstanding of the internal audit role, limiting its role only in auditing the accounting, and neglecting its consultant role on evaluation of the financial performance. The study tested the following hypotheses: there is statistically significant relationship between the internal audit and the evaluation of the financial performance, there is statistically significant relationship between the internal audit and the quality of the financial analysis, the internal audit has a role on the control of preparation of the planning budgets, the internal audit has an impact on the control of cash flow. The study adopted the historical method to review the previous studies that related to issue of the research, the inductive method to determine the aspects of the research and formulate the hypotheses, the deductive method to test the hypotheses, and the analytical descriptive method for the case study. The study arrived at several findings the most important include: the internal audit helps in evaluation the financial performance efficiently and effectively, the internal audit increases the quality of the financial analysis, the internal audit performs an effective controlling role on the preparation of the planning budgets, the internal audit affects positively the cash flow. The study recommended to: the internal audit should be independent and its personnel should be qualified scientifically and practically, the internal audit should supervise the financial analysis process, consultancy should be taken from the internal audit when preparing the planning budgets, and finally the internal audit should control the cash inflows and cash outflows.

**Keywords** (Internal audit, Evaluating the Financial Performance)

## **Introduction**

The development and large-scale business of companies has led to internal audit as a means of control to assist the Department in carrying out its various duties and

responsibilities. The study aimed to arrive at the outcome of the statistical relationship between internal audit and financial performance. The problem of the study was the erroneous understanding of the role of internal auditing and its role only in auditing the accounts while neglecting its advisory role in evaluating financial performance. The problem of the study is as follows: Is there a statistically significant relationship between internal audit and financial performance evaluation? Is there a statistically significant relationship between internal reference and financial analysis? Is there a role for internal audit on preparing planning budgets?. Is there an impact of internal audit on cash flow control? The hypotheses of the study were as follows: There is a statistically significant relationship between internal audit and financial performance evaluation, there is a statistically significant relationship between internal audit and the quality of financial analysis, there is an internal audit role in the control of the preparation of planning budgets, there is an impact for internal audit of cash flow control.

### **Theoretical framework**

**(Zein El Abidine,2011, Study)**the study examined the role of internal audit in improving financial performance,The study aimed to measure the impact of the internal control system on improving financial performance and to determine the correctness of information provided by the various sections and comply with procedures, laws and regulations that have a role in improving the financial performance of commercial companies, The problem of the study as following : the almost complete absence of the internal audit systems of the Sudanese pharmaceutical company and the lack of sufficient expertise on the pharmaceutical company's auditors. The study found several results including: the lack of internal audit planning does not exist scientifically and in practice, the lack of an integrated network in the internal audit process and the stimulation of Auditors by senior management provides confidence in the performance of internal auditors .

**(Mohammed, 2011, Study)** The study examined the role of internal auditing in assessing the efficiency of financial performance in private sector enterprises .The study aimed to ensure that internal audit sections are efficient in their missions by assessing the efficiency of financial performance in private sector organizations and reversing the role internal audit of upgrading the financial and accounting performance within different units and reassuring them of the accuracy of data and information They responded by the administration and ensure that the regulations and laws are followed in full .The problem with the study was that some financial units did not respond to internal audit observations contained in the reports submitted by the internal audit in a timely manner and there was a slow implementation, which would have an impact on the achievement of the objectives of the establishment. The study selected the following hypotheses: Internal audit reports are an indicator of the commitment of the units to the accounting and internal audit laws and regulations that assist in measuring and increasing the efficiency of accounting performance and internal audit reports that are sufficient to reflect the real financial, accounting and management performance In units of measurement, The study result as following :the internal Audit Department achieves its objective of assessing financial performance with sufficient independence and allowing it to be able to meet its objective.

## **Internal Audit Concept**

Internal audit represents an independent evaluation function established within the designated organization for the purpose of examining and evaluating the activities carried out by this organization. The internal audit aims to assist individuals within the Organization to carry out their responsibilities to a high degree on through the provision of analysis, assessment, recommendations, advice and information on the activities to be reviewed (**Abdelfattah,2004**).Many of the functions and processes performed by the auditors in the Government are similar to those performed through the accounting firms. The legal expression of the financial statements, however, the services performed by the internal auditors (**amin ,2011**).Internal audit is an independent evaluation activity within the facility aimed at checking, evaluating and verifying the accounting, financial and other aspects operational by an independent internal body of the facility's management to provide assurance and assurance to management on the adequacy of procedures and internal controls and the adequacy of the implementation Policies developed, performance measurement and evaluation of the effectiveness and adequacy of the design of internal procedures and means(**Abdullah,2009**).Internal auditing is defined as a separate function created within the bank to examine and evaluate all its activities whether financial or administrative to help all employees in to accomplish the duties assigned to them, through analysis, assessment and advisory guidance on the different actors in Established, and ensure optimum use of resources and capabilities consistent with the bank's overall policies(**Khaled,1998**).There are several factors that have helped in the emergence and development of the internal audit profession,These factors can be summarized as follows ( **Fathi,2003**):

- Management's interest in the results of the work and the fairness of the lists and statements.
  - the decentralization of administration and the consequent distribution of responsibilities .
  - Increasing the number and distribution of beneficiaries of the project and its information to stakeholders.

Internal audit objectives are divided into (**Ahmed,1990**) : -

1. Periodic evaluation of accounting and financial policies and all related matters and make sure that they go according to plan without deviation .
2. Periodic evaluation and feedback on management policies and operational procedures for the purpose of improving and developing them and achieving the highest administrative efficiency

## **Financial Performance Evaluation**

The concept of financial performance evaluation: the financial performance evaluation means providing valuable resources to manage the natural, physical and financial resource available to manage the organization and to respond to the following and absence of its various parties and to assess the financial performance of an organization in order to measure results achieved or expected in the light of predetermined criteria, the procedures and methods of measurement are defined to determine what can be measured

and thus reveal their importance to management as well as for the following reasons(Munir,2008):

- 1- Determine the level of achievement of objectives by measuring and comparing results, allowing for effective judging.
- 2- Determining the relevance of the results and the resources used to allow for inefficient governance.

**Methods of evaluating financial performance:** the proposed methods are generally considered to be applied methods based on a theoretical basis from the ratios ratios, which are often quantitative, rarely qualitative and depend on the information collected from the targets towards implementation.

**Results & Discussion:**

The study sample includes Sudanese Banking - Khartoum State. The researcher distributed (70) questionnaire forms among some of the workers in the field selected randomly (62) Forms were collected as 89%. (SPSS) used for analyzing the relevant data. The researcher used statistical methods following: median, and Chi-Square test the hypothesis.

**Table (1):** Through table (1), the level of significance Chi-Square test (.000) less than the significance level 0.05, This shows that There is a statistically significant relationship between internal review and the financial performance calendar, therefore the hypothesis(1) is achieved.

**Table (2):** Through table (2), the level of significance Chi-Square test (.000) less than the significance level 0.05, This shows that: There is a statistically significant relationship between internal audit and financial analysis, therefore the hypothesis(2) is achieved.

**Table (3):** Through table (3), the level of significance Chi-Square test (.000) less than the significance level 0.05, This shows that: There is a role for internal audit in monitoring the preparation of planning budgets, therefore the hypothesis(3) is achieved.

**Table (4):** Through table (4), the level of significance Chi-Square test (.000) less than the significance level 0.05, This shows that :There is Internal audit affects on cash flow, therefore the hypothesis(4) is achieved.

**Table (1)**

Phrases	Median	Explanation	Chi-Square	Asymp. Sig
There's a correlation between the independence of the Internal audit department and the quality of the bank's financial performance	5	Strongly Agree	211.001	.000
Scientific and practical qualification of internal auditors performs bank financial performance	4	Agree	152.040	.004
There's a correlation between an effective internal audit system and an evaluation of the financial performance	5	Strongly Agree	238.100	.000

of the Bank.				
There is a correlation between the internal audit planning process and the efficiency of financial performance.	5	Strongly Agree	100.320	.001
Electronic operation of Internal audit helps to assess financial performance.	5	Strongly Agree	89.903	.000

**Table (2)**

<b>Phrases</b>	<b>Median</b>	<b>Explanation</b>	<b>Chi-Square</b>	<b>Asymp. Sig</b>
There is a statistically significant relationship between internal audit and activity ratio analysis	5	Strongly Agree	276.398	.000
There is a statistically significant relationship between internal review and the accuracy of profitability ratios	4	Agree	155.020	.000
Internal audit helps improve liquidity ratios	5	Strongly Agree	297.013	.001
Internal audit contributes to the quality of accounting information	5	Strongly Agree	155.120	.003
Internal audit helps to analyze the accuracy of debt ratios within the bank.	5	Strongly Agree	88.150	.000

**Table (3)**

<b>Phrases</b>	<b>Median</b>	<b>Explanation</b>	<b>Chi-Square</b>	<b>Asymp. Sig</b>
Internal audit contributes to preparing planning budgets well	5	Strongly Agree	157.164	.000
Internal Audit agrees with the planning budgets that both are considered as a control tool by detecting deviation from the plan	4	Agree	122.078	.000
Internal audit helps to control the preparation of cash balances through data auditing	5	Strongly Agree	233.012	.000
Internal audit affects overall budget preparation	5	Strongly Agree	104.130	.000
Internal audit affects the preparation of the balancing of wages and workers through their access to and review of Labour	5	Strongly Agree	88.509	.000

**Table (4)**

<b>Phrases</b>	<b>Median</b>	<b>Explanation</b>	<b>Chi-</b>	<b>Asymp.</b>
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			<b>Square</b>	<b>Sig</b>
There is a relationship between internal audit and cash flow list preparation in the liquidity disclosure	5	Strongly Agree	212.010	.000
Internal audit helps to rationalize cash flow through expenditure control	4	Agree	174.014	.000
Internal audit affects the preparation of operational activities	5	Strongly Agree	221.038	.000
Internal audit affects the preparation of investment activities	5	Strongly Agree	144.012	.000
Internal audit affects the preparation of funding activities	5	Strongly Agree	93.198	.000

### **Results:**

- Internal audit helps to assess financial performance efficiently and effectively .
- The independence of the internal audit department increases the quality of the bank's financial performance .
- The scientific and practical rehabilitation of internal auditors helps to assess financial performance well .
- An effective internal audit system that performs well .
- The internal audit planning process increases the efficiency of financial performance .

### **Recommendations:**

- The need for independent management of internal audit and the practical and scientific rehabilitation of its personnel .
- Internal audit should oversee and identify financial analysis processes .
- Internal audit advice should be taken when preparing planning budgets .

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