

Neven Brezo

Raiffeisen Bank,
Pale,
Bosnia and Herzegovina

✉ nevenbrezo@gmail.com

INTERNAL AUDITING ROLE IN BANKS IN BOSNIA AND HERZEGOVINA

УЛОГА ИНТЕРНЕ РЕВИЗИЈЕ У БАНКАМА У БОСНИ И ХЕРЦЕГОВИНИ

Summary: *The role of internal auditing in banks in Bosnia and Herzegovina has been presented in this paper. Internal auditing as a relatively new profession is rapidly developing and its growing importance is an analysis of the manner and practice of internal auditing functioning in Bosnia and Herzegovina banks. The purpose of the research is elaboration of internal auditing based on risk estimation, new challenges which the internal auditing faces as well as analysis of practice and presentation of results of internal auditing functioning in Bosnia and Herzegovina banks. This paper gives a reply to the question how senior management and the employees in banks understand role, function and importance of internal auditing in them. Researches carried out for the purpose of this paper are searching for the answer to the question on what kind of internal auditing is meant in Bosnia and Herzegovina banks, what its role and importance are and what is specific in carrying out internal auditing in banks. We expect that our researches will make possible testing and proving the stated hypothesis: that internal auditing in banks can fulfill its role and help bank management to resist successfully the challenges they are facing only if they apply in their work modern, systematic approach to auditing focused on the process on risk managing to which the bank is exposed. In contemporary business conditions it has been evidenced that the approach of traditional internal auditing based on control is not adequate any more or sufficient and that it cannot give the needed support to those responsible for bank management, which is necessary for effective realization of goals.*

Keywords: *internal audit, corporate governance, Basel I, Basel II*

JEL Classification: *M42, G21*

Резиме: *У овом раду је презентована улога интерне ревизије у банкама у Босни и Херцеговини. Интерна ревизија као релативно млада професија убрзано се развија, те се у последње вријеме веома озбиљно схваћа њен све већи значај. Предмет истраживања јесте анализа начина и праксе функционисања интерне ревизије у банкама у БиХ. Циљ истраживања је елаборација интерне ревизије засноване на процјени ризика, нових изазова који се у том контексту постављају пред интерну ревизију, те анализа праксе и презентовање резултата функционисања интерне ревизије у банкама у Босни и Херцеговини. Овај рад пружа и одговор на питање како виши менаџмент и запослени у банкама схватају улогу, функцију и значај интерне ревизије у истим. Истраживања која су урађена у функцији израде овог рада трагају за одговором на питање о каквом типу интерне ревизије је ријеч у банкама у БиХ, каква је њена улога и значај, те које су специфичности рада интерне ревизије у банкама. Очекујемо да ће наша истраживања омогућити тестирање и доказивање постављене хипотезе: да интерна ревизија у банкама може испунити своју улогу и помоћи менаџменту банке да се успјешно супротстави изазовима са којима се сусрећу само уколико у свом раду примјењује модерни, систематски, приступ ревизије који је фокусиран на процес управљања ризицима којима је банка изложена. У савременим условима пословања показало се да приступ традиционалне интерне ревизије базиране на контроли није више адекватан и довољан и да не може пружити потребну подршку одговорним за пословање банке која је потребна за ефикасно остваривање циљева.*

Кључне ријечи: *интерна ревизија, корпоративно управљање, Базел I, Базел 2*

ЈЕЛ класификација: *M42, G21*

1. INTRODUCTION

Expansion of bank business operations has brought many changes including constant complexity, dynamics and changeability of surroundings in which banks are operating. In this way new challenges are placed in front of internal auditing (new technologies, new products, new regulations) having as a consequence creation of new paradigm of internal auditing.

In its historical development, internal auditing has had various roles – from preventing corruption, evading, stealing, errors and others risks which banks are facing in their business operations, through estimation of functioning of the established internal controls inside a bank as its main function, up to present time when internal auditing is considered necessary for realization of the main goals in banking.

In modern financial systems it is more and more difficult to make normal business operations and financial stability possible. For that reason, internal auditing is necessary, as a higher degree of supervision over the complete management. Namely, “Internal auditing has developed from the initial directing to formal and purpose content testing, regularity and reliability of accounting information to proactive function in bank including engagements with expressing convictions and giving advisory services” (Tušek and Pokrovec 2009, 51).

In auditing literature and practice the accent is more and more put on the importance of focusing internal auditing towards risk, so the main focus of internal auditing has become managing all the risks threatening bank business operations. Risk has always been an integral part of internal auditing process, but now it has come into its very focus. “Focusing internal auditing to the risk, in traditional approach, has been directed to risk estimation which they had carried out themselves, while in internal auditing based on risk, focus is transferred to analyzing active role of management in analysis and estimation of risk” (Tušek and Pokrovec 2009, 56). The important fact is that integral auditing based on risk includes management more widely, although internal auditors are those who have the leading role in evaluation and risk managing.

2. SURVEY OF INTERNAL AUDITING CHALLENGES IN BANKS

Corporative management is the main promoter of internal auditing process. It is based on business success and effective organizing of supervision, auditing, accounting, responsibility and performances managing. Scandals in companies Enron and WorldCom have emphasized the need for more effective systems of corporative management.¹

Banks in our country are actually parts of big holding companies which include almost all fields of financial services. Bank, which was limited only to operations of money lending around fifty years ago, is now a universal bank offering all kinds of financial services to their clients. In this way they can operate via various units or sectors established under one roof or via establishing of many joined or dependent companies within one holding company. Therefore, present bank institutions have become very complex in their nature, and for that reason new challenges have been imposed to the internal auditing in banks.

With fast development of new technologies banks have received better approach to clients, offered a wide spectrum of financial products, which has brought enormous growth of banking. The same development has opened the door to further business processes. Both of the above stated facts have been useful for banks. But, it has also brought new kinds of risks to banks. For that reason internal auditors nowadays must know all the fields in banking as well as all the belonging financial operations, if they want to efficiently perform their job.

According to the internal auditing standard 2110, internal auditing function is identification and evaluation of important exposition to risk and contribution to the management and control system (The Institute of Internal Auditors 2004). As standards do not contain the methodology of risk

¹ Creative accounting, and/or publishing of false, blown up business results, is often connected with the USA in the first place because of the biggest corruption scandals in history, such as: Enron, WorldCom, Tyco International, which have caused avalanche of doubts in the ethic of American business. In order to keep high prices of stocks and therewith fulfill expectations of the owners, and/or stockholders, as well as managers, paid by stockholding options, managements turn to blown up annual statements. It has specially happened in the USA after the year 2000, when the market value of many American companies began to stagnate.

identification and evaluation in bank business processes one of the goals of this paper is to establish general principles of identification and evaluation of the risk in bank's business process. For that reason, Agency for Banking of the Republic of Srpska has made decision that internal auditing should help bank managing board in the realization of its role by applying systematic, organized and documented approach to evaluation and improving of the existing manner of risk management, as well as control and processes managing. Furthermore, the same decision says that internal auditing is obliged to provide for risks to be identified and controlled in an appropriate way (Službeni glasnik RS 2003).

As for banking institutions, the value of risk management is stated in numerous regulatory requirements of the Agency for Banking of the Republic of Srpska and Federation of Bosnia and Herzegovina, as well as in the Law of Banks (published in the Official Gazette of the Republic of Srpska, nr. 44 dated 19 June 2003, Off. Gazette of Federation of Bosnia and Herzegovina, number 45/02), which include the internal control system as well, with considerable expectations and requirements from internal auditing.

3. DEFINING THE ROLE OF INTERNAL AUDITING

The Association of Chartered Certified Accountants (ACCA) with its head quarters in London has given its comment on the Definition of Risk Based Auditing. Together with its subcommittees for internal auditing, with a group of experienced accountants who carry out internal auditing, it thinks that internal auditing based on risk includes two connected activities, as follows (ACCA 2002):

- Providing independent assurance in risk management;
- Forming opinion to what extent good controls are implemented and maintained with the purpose to lessen risks which management decided to treat.

The Institute of Internal Auditors of the UK and Ireland points out that the aim of the risk-based auditing is to provide independent assurance to the managing board in such a way that:

- Risk managing processes which the management has established in the organization (including all the risk managing processes at the corporative and departmental level and at the level of business units and business processes, etc.) function as planned;
- These risk managing processes have good plan;
- Way of the management approach to risks which they want to test are adequate and efficient for the purpose of lessening these risks to the level acceptable to the managing board;
- Good frame of controls function with the aim to lessen sufficiently the risks which the management wants to treat (The Institute of Internal Auditors-UK and Ireland 2004)

The internal auditing had to change its role in banks. The auditors understood that the problems they were investigating had not appeared exclusively in financial department. Internal auditing started as a function of financial policy and the whole process was constructed around it. This concept could not survive. The internal auditing role in banks has been changed and now the management respects the internal auditing at a higher level, respecting the internal auditor's conclusions that stresses and gives directions in risk evaluation in banks.

Richard Nelson, President of the Institute of Internal Auditors in his statements describes the role of internal auditing and said: "Now it should be more stressed how the internal auditor can help the managing board and the auditing board. Reforms have turned the old process upside down. Some time ago, the managing board saw internal auditing, if it had seen it all, as a boring but valuable process. It was considered as good for housekeeping, but it had rarely influenced their decisions making. It has all been changed since the external world, due to reforms, became aware of risks which organizations are facing" (Blackburn 2002).

Implementation of Basel II in the bank industry led to further ripening and evolution of internal auditing. Basel II is a collection of recommendations and directives for more thorough managing all kinds of risks in banking and bank institutions. This collection of directives was made in 2004 (Basel I directives were valid since 1988. By the Basel Committee on Banking Supervision, Bank for International Settlements - BIS). The basic goal of Basel II directives is to raise level of

consciousness (especially with executive managers) on the need for strengthening managing mechanisms with all kinds of corporative risks, especially operative and credit risks.

Basel agreement from 1988 (so called Basel I) defined counting of guarantee capital and pondered assets and it can be stated that it had positive efficiency – it caused the increase of banks capital, and/or it stopped negative trend of decrease. It was mainly directed to credit risk although implicitly, actually to smaller extent, some other risks were also covered. In spite of positive efficiency, Basel I showed certain shortages which had decisive role on the appearance of new standards or Basel II. Shortages of Basel I are as follows (HNB 2004):

- Adequacy of capital is not evaluated in relation to real risk profile of the bank (limited differentiation of credit risk, operative risk was not included);
- Evaluation of the country risk was not adequate;
- It does not offer enough motive for applying techniques for risk lessening;
- It makes possible regulatory arbitration through securitization.

In June 1999, Basel committee for bank supervision (Basel committee) announced the first proposal of new standards which replaced Basel I. Several consultative documents followed, a series of statements and at the end the publishing of the final text of Basel II in 2004. Basel II has brought quite a new approach to the way of regulating bank operations. It is founded on flexible and sophisticated approach in measuring credit and operation risk, and/or different way of performing supervision. What is characteristic for Basel II is its structure based on three piers:

1. minimum capital requirements (Pier 1)
2. supervision over adequacy of capital (Pier 2) and
3. market discipline (Pier 3)

Pier 1 in the first place defines rules for counting of credit and operative risk. Standard offers several options for counting of credit and operative risk in this pier, in such a way that each bank chooses such way that it considers to be the most appropriate to its specificities. Such solution came as a consequence of understanding that operations and risks to which banks are exposed are considerably different from bank to bank, and therefore the same way of measuring risks does not give corresponding results in all banks.

Capital requirements from Pier 1 are not sufficient for covering a series of other risks to which the bank is exposed, so **Pier 2** takes into consideration exposition to other risks and in accordance with it defines need for providing adequate capital requirements. In Pier 2 the role of supervisor is specially stressed as well as the need for legal approval of discretion rights in making decisions on specific banks. Piers 1 and 2 are complementary and only if they are together they can come to the capital level necessary for covering all risks of a certain bank.

Pier 3 is a support to Pier 1, because according to Pier 3 application of modern approaches to measuring credit and operative risks also means obligation for publishing additional information. Besides, better transparency of banks operations should contribute to resistance of financial systems to shocks and in that way influence its stability. Stability is one of the essential goals of Basel II.

Market discipline can sometimes make bigger limitations to banks than the regulators themselves and therefore it is considered that market can be very strong ally to supervision and regulators. In addition, market discipline should act as a sort of corrective factor which motivates banks to manage risks qualitatively and to operate healthily.

It might be said that Basel frame is Basel II, first of all, conceived with the aim of preventing appearance of crisis. However, global financial crisis from 2008 showed that there were shortages in the conception of Basel II, considering the fact that it did not help in its prevention. At the same time there appeared need for counter cyclic control instruments and mechanisms which will connect capital needs with the rate of bank crediting change. The result was giving new directives within Basel III regulatory frame.

Jaime Caruana, general manager of BIS Bank of Portugal on 14 October 2011, speaking on he topic of Basel III and new challenges for supervisors, risk managers and auditors, pointed out the following: “In order to forge connection between corporative management and risks managing many banks have drawn triple defense line. I believe that such approach is specially valid, because it correctly makes difference among roles of business units, function of support and internal auditing.

- The first defense line is business unit, which is responsible for identification, measuring, taking and risk lessening from its operation.

- The second defense line, which includes risks managing, compliance, law, finances, operations and informatics technology, acts with business units to provide that the first line validly identifies measures and informs about its business risks. Collectively, all the elements of this defense line are responsible for development of insight into the risk of the complete bank.
- The third defense line, actually internal auditing, independently and systematically inspects efficiency and effectiveness of the first two defense lines and contributes to their efficiency” (Caurana 2011 148).

4. EMPIRICAL RESEARCH OF THE INTERNAL AUDITING ROLE

4.1. Description of approach and used research methods

According to the report by the Agency for Banking, Republic of Srpska, of 30 September 2015, banking sector was made of 9 banks with totally employed 3230 workers (Agencija za bankarstvo 2015, 6). Agency for Banking of Bosnia and Herzegovina quoted that on 30 September 2015 17 banks in the Federation of Bosnia and Herzegovina had work permit and these banks employed total of 6876 workers (Agencija za bankarstvo FBiH 2005, 6).

Empirical research in this paper was carried out through a questionnaire. Based on the received results, the importance of internal auditing is estimated in banks with the aim of proving the supposed hypothesis. The research was done on the sample of the banks dealing in Bosnia and Herzegovina.

The questionnaire was made with the aid of the internet programme application “Google Docs”, and the link for filling in the forms by email was sent to the managers/directorates of the banks whose efficiency and importance of internal auditing was estimated.

The population of this research was banking system of Bosnia and Herzegovina, and/or all banks no matter what size or ownership. The sample included 26 banks. Rate of response was 42%, i.e. representatives of 11 banks gave answers to the offered questions in the questionnaire. We can conclude that research results were formed by concrete questionnaire responses, and therewith the research requirements were fulfilled.

4.2. Research results and discussion

The research results are following, i.e. the results of empiric research of the manner and practice of internal auditing functioning in banks in Bosnia and Herzegovina. The research is founded on collection of suitable data, by a questionnaire. Estimation/evaluation about the way in which internal auditing departments are organized and how they carry out their tasks, established in Bosnia and Herzegovina banks, is given along with a special focus on the approach they apply – traditional or an approach based on risks.

Questionnaire: internal auditing in Bosnia and Herzegovina banks with answers

Through the questionnaire we have received an answer to what extent internal auditing departments really contribute to risks managing and efficiency of banks dealing in Bosnia and Herzegovina. Further text shall analyze in detail answers to the questionnaire which we received by carrying out the above mentioned questionnaire.

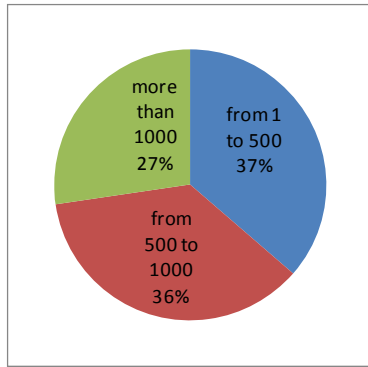
Number of employees in your bank is:

Table 1.

	Number of banks	Percentage
from 1 to 500	4	36%
from 500 to 1000	4	36%
more than 1000	3	27%

Source: Author's research

From Table 1 and graphic representation of answers to the first question we can see that out of 11 analyzed banks, 4 of them have up to 500 employees, and/or 36%. The second group has 4 banks with the same percentage of 36% and 3 banks are in the group with more than 1000 employees. We can see that small, medium and big banks are almost equally represented in Bosnia and Herzegovina market.

Ownership structure of your bank:

Table 2

	Number of banks	Percentage
domestic ownership	2	18%
foreign ownership	9	82%

Source: Author's research

From Table 2 and the accompanying graphic representation it can be concluded that banks in foreign ownership have priority in Bosnia and Herzegovina market in the banking sector.

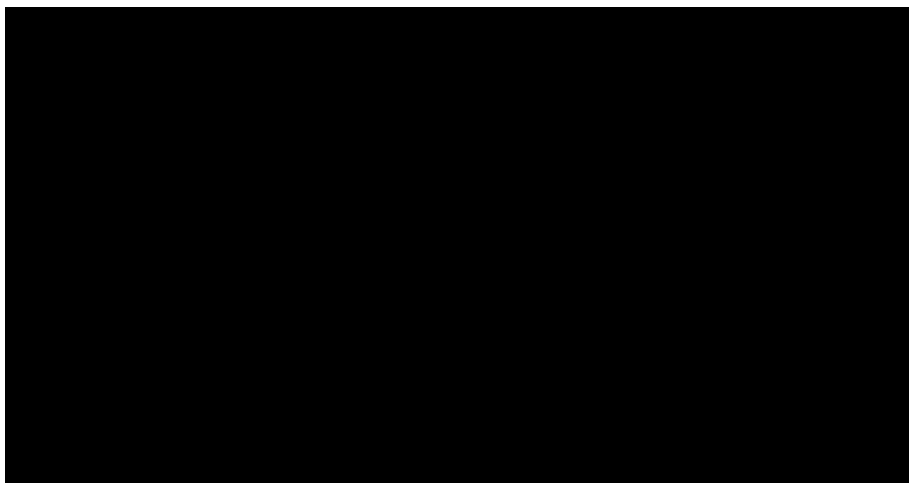
How is internal auditing organized in your bank?

Table 3

	Number of banks	Percentage
As department inside financial service, accounting or other services	0	0%
As independent organizational unit on the level of other services	8	73%
As body directly responsible to Management and Supervision Board	3	27%

Source: Author's research

Table 3 and its graphic show that out of 11 banks 8 of them gave answer that the internal auditing is organized as an independent organizational unit at the level of other services, which accounts for 73% of the answers. Therefore, it can be said that in the organizational sense the internal auditing has been placed so that it can carry out its duties objectively.

Which of the given answers would you state as the biggest reason for organizing internal auditing in your bank? Reason for founding internal auditing in your bank is:

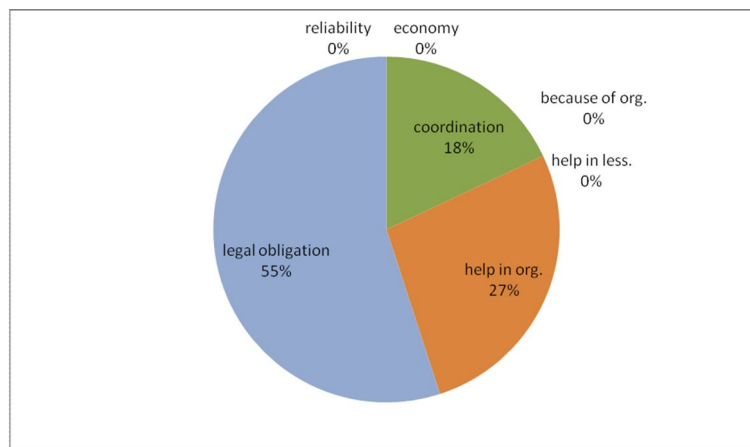


Table 4.

	Number of banks	Percent age
Help in organization and supervision over the internal control system	3	27%
Because of organizing better directing and carrying out control procedures	0	0%
Help in lessening and control of expenses	0	0%
Coordination of operations with the internal regulations, policies and programmes of work	2	18%
Reliability of financial information	0	0%
Economy and efficiency in using resources	0	0%
Legal obligation	6	55%

Source: Author's research

Table 4 confirms based on the answers of 6 banks to the question, that the internal auditing has been legally regulated and obligatory for all banks. Internal auditing function has been legally regulated and therefore it must follow and check if the bank observes the law and other regulations, the suitable accounting standards and procedures and if it carries out revision of bank documents and informs the Supervision Board about it. Namely, a conclusion is being imposed that the internal auditing has been established because it is prescribed by law, not for helping management in risks managing.

The internal auditing scope of work is:

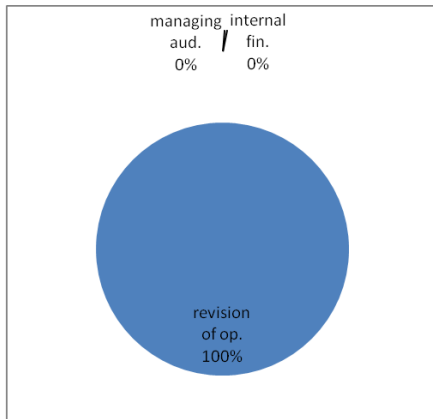


Table 5

	Number of banks	Percentage
Internal financial auditing	0	0%
Operation auditing	11	100%
Managing auditing	0	0%

Source: Author's research

It is easy to comment this question since all of 11 banks have given the same answer, shown in Table 5 and its graphic. In its origin, the internal auditing dealt with testing and expressing opinions about financial reports reality, but as we see in Table 5 nowadays it tests complete business operation of the organization with the aim to fix harmonizing of organization operations with the previously set criteria for estimation of possible risks in certain areas of bank operations, giving advices and suggestions to the management on possibilities of managing those risks.

Internal auditing method which is most frequently used in your bank is:

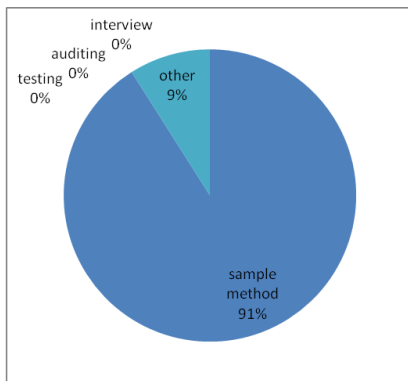


Table 6

	Number of banks	Percentage
Interview	0	0%
Sample method	10	91%
Testing	0	0%
Auditing	0	0%
Other	1	9%

Source: Author's research

Table 6 shows that, no matter what size and ownership of the bank are, the same method of internal auditing is applied – sample method. According to answers in this questionnaire, this method has been accepted by internal auditors in banks for more reasons. Some of the reasons are that this method is probably the cheapest model and the fastest for realization. Therefore, practice has shown that the results of this model are excellent and make possible covering and controls of all areas.

Does the internal auditing contribute to making additional value?

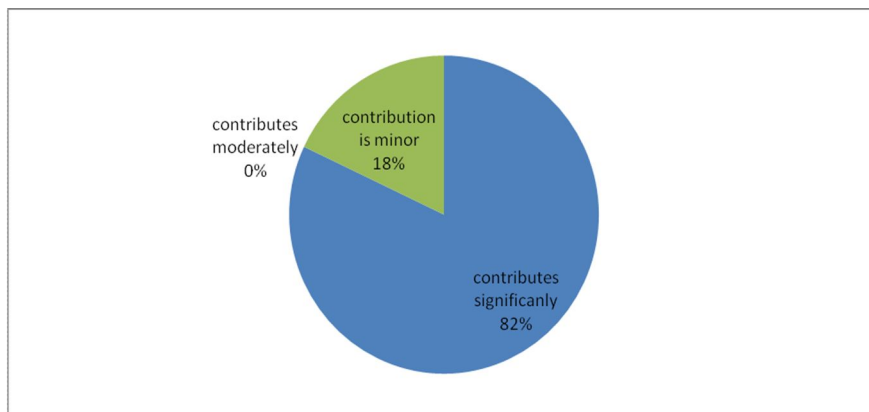


Table 7

	Number of banks	Percentage
Contributes significantly	9	82%
Contributes moderately	0	0%
Internal auditing contribution is minor	2	18%

Source: Author's research

Table 7 indicates that the majority of those tested, 82% of them, answered that internal auditing considerably contributes to making additional value, and/or that it contributes to realization of even more qualitative operations. Other 18% of the tested said that the contribution to internal auditing in making additional value is minor. We received these answers from two small banks in domestic ownership. The internal auditing is actively included in making additional value by generating information needed for identification, understanding and estimation of potential risks. Based on these answers it can be seen that the internal auditing is getting a wider scope of activity and becomes an advisory function oriented to the increase of additional value.

How do you evaluate the internal auditing orientation to internal control in your bank?

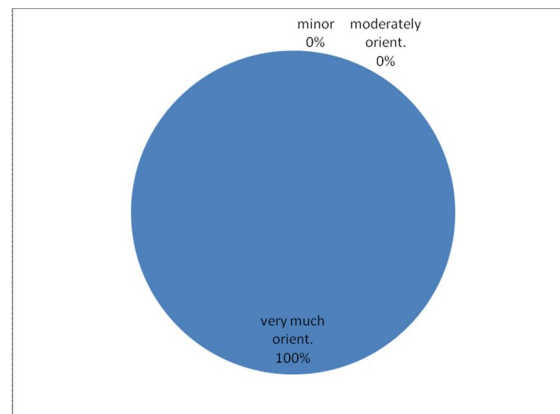


Table 8

	Number of banks	Percentage
Very much oriented to risk estimation	11	100%
Moderately oriented to risk estimation	0	0%
Minor orientation to risk estimation	0	0%

Source: Author's research

The research and the answers received from all of 11 banks clearly point out to the fact that the internal auditing in banks is oriented to risk estimation and that it has an important role in risk managing.

How do you evaluate the internal auditing orientation to internal control in your bank?

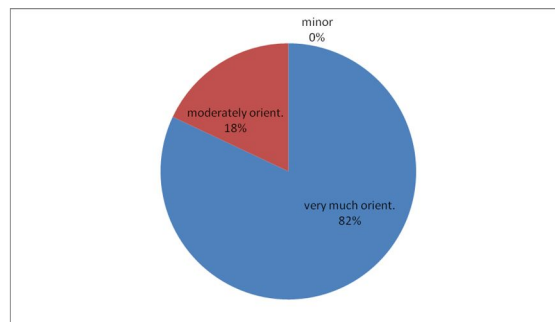


Table 9

	Number of banks	Percentage
Very much oriented	9	82%
Moderately oriented	2	18%
Minor orientation	0	0%

Source: Author's research

This questionnaire question gives information that the internal auditing is very much oriented to the internal control work. Such answer was given by 9 banks or 82% of the tested. Two domestic banks answered that the internal auditing is moderately oriented to the internal control work in banks. We shall conclude by these answers that the internal auditing role in banks is to permanently harmonize and supervise the internal control systems work.

Does the internal auditing have advisory role in your bank?

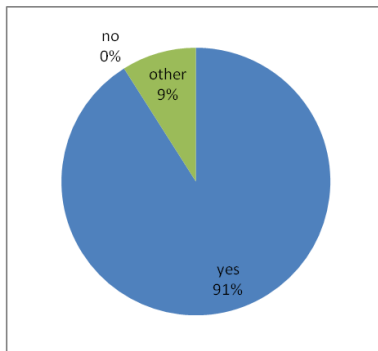


Table 10

	Number of banks	Percentage
Yes	10	91%
No	0	0%
Other	1	9%

Source: Author's research

Table 10 gives answers by 10 banks or 91% of the tested that the internal auditing has advisory role in banks. Only one bank answered "other" and no bank said that the internal auditing does not have advisory role in banks. From the above stated it can be concluded that the internal auditing has advisory role in banks.

Is a book of regulations on the internal auditing dealing existing in your bank?

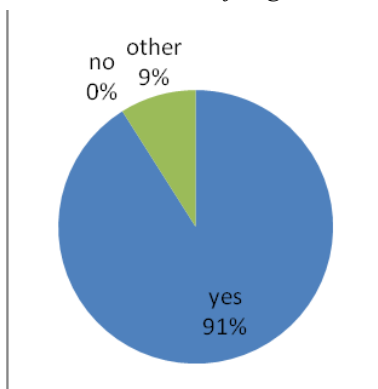


Table 11

	Number of banks	Percentage
Yes	10	91%
No	0	0%
Other	1	9%

Source: Author's research

In this question 10 banks gave the same answer, i.e. that there exists a book of regulations of the internal auditing dealing in banks. One of the banks circled "other" quoting that there exists a book of regulations on the internal auditing dealing, i.e. that it is prescribed by the bank internal acts that such a book of regulations must exist as the internal auditing handbook.

What is the attitude of authorities in your bank towards the internal auditing report and recommendations?

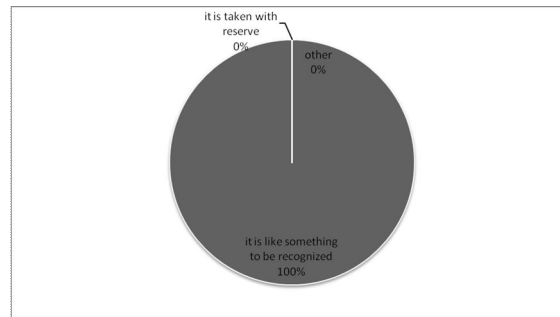


Table 12

	Number of banks	Percentage
It is taken with reserve	0	0%
It is seen like something to be recognized and then lessen or eliminate risk In some parts of the bank	11	100%
Other	0	0%

Source: Author's research

The banks gave the same answer to this question as well, i.e. that the bank authorities accept the internal auditing report about the work done, and/or that they realize recognized by the internal auditing and consider the internal auditing advices how to eliminate potential risks in certain parts of the bank.

Based on which qualifications are employees in the internal auditing department in your bank including the manager chosen?

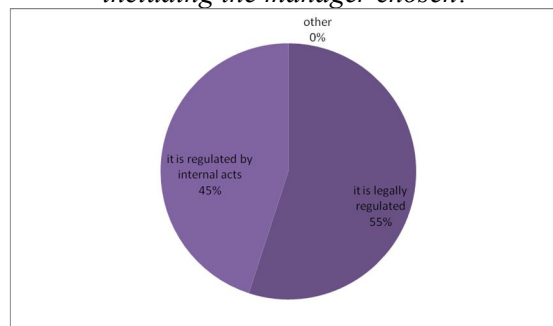


Table 13

	Number of banks	Percentage
It is regulated by bank internal acts about systematization of work positions	5	45%
It is legally regulated	6	55%
Other	0	0%

Source: Author's research

From Table 13 and its graphic it can be seen that six banks and/or 55% of the tested answered that the choice of internal auditor is prescribed by law. Other five banks or 45% of the tested said that it is regulated by internal acts of the bank about systematization of work positions. However, those acts were made on the basis of legal regulations. Based on this it can be concluded that choice of the employees in the internal auditing department in banks is regulated by law.

How is work plan of the internal auditing made in your bank?

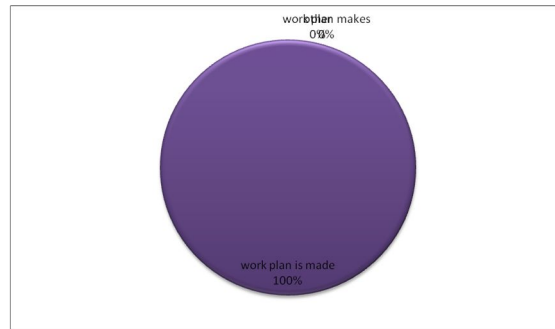


Table 14

	Number of banks	Percentage
Work plan is made in the IA department and it is delivered to the Revision Board for harmonization. The Managing Board also receives the report and finally it is sent to the Supervision Board for acceptance	11	100%
Work plan is made by IA department which delivers it to the Stockholder Assembly	0	0%
Other	0	0%

Source: Author's research

The answers of all eleven questioned banks to this question are that the plan is made in the IA department and sent for harmonization to the Auditing Board. According to the results of estimation of how much risky auditing areas are, a priority list for internal auditing is formed and it is the basis for making annual plan for the internal auditing work, in such a way that when making it, as a rule, areas bearing higher risk are taken into consideration from the priority list, providing therewith more frequent auditing activities related to the bank areas with higher degree of risk. Also, those bank areas which bear risk and which are not audited in the above defined period of time, are taken into consideration.

On which criteria is annual planning of IA activities based in your bank?

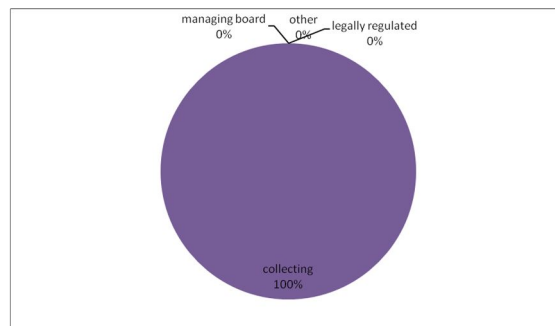


Table 15

	Number of banks	Percentage
Collecting of relevant information, ranging of risky areas and making priority list	11	100%
Legally regulated contents of IA activities plan	0	0%
Managing Board makes IA activities plan	0	0%
Other	0	0%

Source: Author's research

Table 15 shows that all banks circled the answer that the internal auditing, in making annual plan, collects relevant information, ranges risky areas and forms priority lists.

To whom are final reports on performed auditing delivered in your bank?

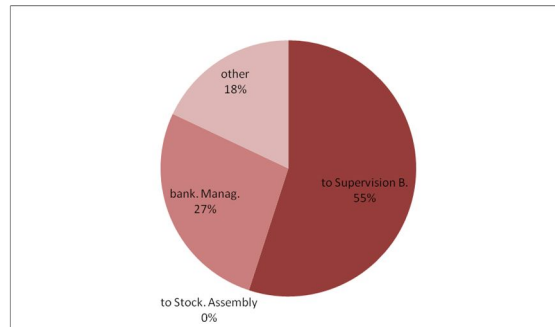


Table 16

	Number of banks	Percentage
To the bank management and head of the IA department	3	27%
To the Stockholder Assembly	0	0%
To the Supervision Board	6	55%
Other	2	18%

Source: Author's research

In this question six banks answered that the final report is delivered to the Supervision Board, three banks said that it is sent to the Managing Board and to the head of the internal auditing department. Two banks quoted that the final report of the internal auditing is delivered to the bank Management which accepts it, Auditing Board is informed about its work on a quarterly basis.

Does the independent external auditing trust the work of your bank IA?

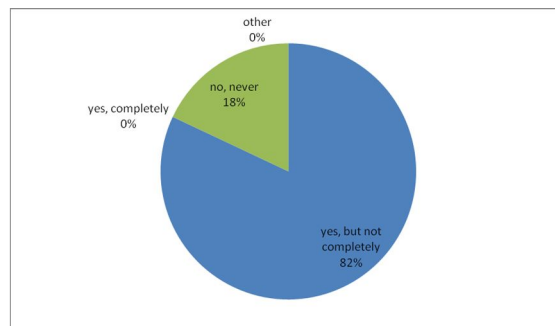


Table 17

	Number of banks	Percentage
No, never	2	18%
Yes, but not completely, after checking reliability of IA work	9	82%
Yes, it completely trusts the IA work	0	0%
Other	0	0%

Source: author's research

Table 17 shows Answers of nine banks or 82% of the tested which said that the external auditing trusts the internal auditing, but not completely and only after checking reliability of the internal auditing work. Two banks said that the external auditing never trusts the internal auditing reports. It can be concluded that the external auditing, although it has its methodology and procedures of analysis, in spite of all, trusts to a great extent the internal auditing work, through control of the internal auditing reports, finding irregularities in the internal auditing work, and through checking if the recommendations and findings have been fulfilled by the internal auditing.

5. CONCLUSION

Results of the questionnaire lead to the conclusion that the internal auditing in banks fulfills minimum of the prescribed standards, but also indicates the existence of space for its advancement to the level which will enable it to fully complete everything expected from it.

Therefore, it is quite clear that the internal auditing is focused to banks dealing, with the aim of giving help and support to the management in successful fulfillment of its numerous tasks and aims, in prevention of possible problems and their correction.

It is important to point out that the internal auditing does not test and analyze always all the parts and aspects of the bank business, but it carries out its testing selectively, according to the risk degree, aiming at those segments of business which are more critical for success of the bank as a whole. Nowadays the internal auditing is influenced by constant changes. It does not focus only on financial control, but covers much wider risk areas. For that reason, bank should establish aims for efficiency and effectiveness of businesses, reliability and complete financial information as well as information in accordance with laws. On the other hand, while estimating risk the internal auditing includes identification and evaluation of risks which are included in the fulfillment of the aims. The internal auditing success as a profession and managing instrument in future will depend on itself. Therefore, it is necessary to direct all efforts to the areas and problems which are faced by modern management levels. Only in that way the internal auditors will gain deserved confidence and support in their work, representing of course basic assumption for implementation of all modern trends and the internal auditing dealing in certain organization. In addition, by basic analysis of the internal auditing specifics in banks one can conclude that banks need high educated, competent and professional staff for more successful managements. In future, the internal auditing will probably include more and more new and various domains, such as quality revision, revision of human surroundings, revision of enterprising, management, strategy etc. One thing is sure, the internal auditing has become internal counselor who does not have repressive but protective character. The internal auditing is a universal activity which can be applied in all banks and all segments of a bank.

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