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Empowering the Internal Audit Function for Effective Role in Risk Management: A Study of Micro Finance Banks in Anambra State, South East, Nigeria

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Abstract *This study investigates the challenges facing the internal audit function in Microfinance banks and how such challenges can be ameliorated to enable it play a more effective role in risk management. A survey research design was adopted for this study. Our population consists of 72 micro finance banks operating in Anambra State,South-East, Nigeria. A sample of 18 banks was selected for the study. The instrument of data collection was a structured questionnaire served on 135 employees of the banks. Descriptive statistics were used to analyse the responses. Our findings include that lack of access to relevant information constitute the greatest set back to internal auditors in their role in risk management. Lack of adequate training was also another major impediment. We recommend unfettered access to information, constant training and retraining for internal audit staff and demarcation of clear lines of responsibility, and reporting to top management by the internal audit.*

Key words Internal audit effectiveness, empowerment, risk management, corporate governance

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1. Introduction

Micro finance institutions occupy strategic position in the economy of any Nation. Although they play at the lower level of the banking sector, they provide credit with the aim of reaching and empowering the economically active but poor households in a country. Experts agree that microfinance, which is the provision of a variety of financial services to the poor, low-income people and small enterprises that lack access to banking and related services, is proving vital in empowering communities. Such communities are in turn enabled to contribute to and benefit from economic development of their countries (United Nations, 2013). However, according to the United Nations, only 12.7% of the poorest families in Africa had access to microfinance services compared to 78.5% in Asia in 2007. In Nigeria, more than 900 regulated microfinance banks operate. However, the Central Bank of Nigeria (CBN) in 2010 closed down 224 illiquid Microfinance Banks. However, the need for more mature and sustainable Micro Finance institutions in Nigeria remains compelling(Microfinance institution Rate, 2012). One area that has been identified as the weak point of microfinance institutions is risk management. If risk management is not addressed properly then the sustainability of microfinance institutions cannot be guaranteed. The major planks of risk management are good internal control system, an ethical board, an effective internal and external audit.

2. Statement of the problem

Inadequate finance, high risk, heavy transaction cost, mounting loan losses, low capacity and low technical skills have been identified as some of the problems plaguing the Nigerian micro finance sub-sector(Nwanyanwu, 2011). At the corporate governance level a lot of problems bedeviling micro finance banks in Nigeria have also been chronicled. These include poor corporate governance culture, poor staff motivation by way of poor remuneration, poor training opportunities, poor promotion prospects and unethical board of directors that often obtain loans beyond the statutory limits approved by regulatory authorities. Such boards also manipulate employment of staff often favouring their cronies in place of competent staff. The result is high incidence of fraud and forgeries(Acha, 2012). The critical role of internal audit function in the sustainability of a micro finance bank has been acknowledged (Aveh *et al*., 2013; Olioku, 2010). The onerous duties of an average internal audit department of a micro finance bank have also been chronicled in extant literature. These include objectively and independently verifying the accuracy of operating and financial information, confirmation of compliance with internal policies and external regulations, ensuring that progress of the organization is satisfactory, identify remaining uncontrolled risk exposures and bring them to the attention of management, determining whether management is taking appropriate steps to address current and previous control deficiencies and external audit report recommendations(Arunchalam, 2011). This emphasizes the pivotal role of internal audit in risk management in micro finance institutions. The growing incidence of fraud in micro finance banks have been blamed partly on the ineffectiveness of the internal audit function (Aveh *et al.*, 2013). Such ineffectiveness on the part of the internal auditors have been ascribed to be due, partly to the failure of the management of such institutions to understand the critical role internal audits play and as such do not empower them(Kumar and Conteh, 2015). It is clear that internal auditors of MFIs face challenges which may well account for their apparent ineffectiveness in risk management. Studies on the challenges facing internal audits are few especially in developing countries (Ali *et al*., 2013). In Nigeria most studies on internal audit challenges are in respect of the public sector. A Nigerian study for example, scored the internal audit effectiveness in the Nigerian public sector as being only moderate because of enormous challenges facing it (Asaolu *et al*., 2016).Our literature search, to the best of our knowledge did not reveal any work in Nigeria in respect of challenges facing internal audit in microfinance institutions. The objective of this study is to investigate the challenges facing microfinance banks in Nigeria and how such challenges will be mitigated so as to empower the internal audit for more effective role in fraud risk management. In doing this we will be guided by this research question "What are the challenges facing microfinance internal audit units and how can they be ameliorated in order to empower them for effective role in fraud risk management". Our study has implications for the Central Bank of Nigeria, management of microfinance institutions and the clients of the banks.

3. Theoretical framework

A number of individual theories have been developed to predict and explain the effectiveness of internal auditing including communications theory, structuration theory, institutional theory and agency theory (Ali *et al*., 2013). Communications theory indicates that the internal audit effectiveness depends mainly on the communication skills possessed by internal auditors. The structuration theory indicates that culture, power and morality are the main structural properties needed to explain the interactions between the social actions including accounting and auditing. Institutional theory indicates that internal audit practices are basically determined by the institutional norms, which in turn identify the institutional changes required to improve the existing internal audit practices. The agency theory which has widely been applied to explain the effectiveness of external auditors has also found ready use in providing theoretical explanations for studying the effectiveness of internal audit(Elmghaamez and Ntim, 2016).

In agency theory, a company is viewed as a web of contracts. Several groups make some kind of contribution to the company for a price. The task of the management is to co-ordinate these groups and contracts and try to optimize them: low price for purchased supplies, high price for sold goods, low interest rates for loans and low wages for employees. Auditing in such situations is useful for both stakeholders and management (Ittonen, 2010). Although internal auditors are employed by senior management, they are at the same time also agents of the board and audit committee who trust in the internal auditors' ability to evaluate senior management works. It follows that internal auditors must perform audit processes at the professional level requiring education and professional certifications, experience and other competencies needed to perform their responsibilities perfectly. Having internal auditors with such requirements and the existence of training programs for internal auditors would increase the confidence level of the board and audit committee in the competence of the internal auditor. In the same vein, internal auditors by performing their duties in accordance with the professional level can easily refute allegations of incompetence and ineffectiveness(Ali *et al*., 2013). Thus agency theory not only helps to explain and predict the existence of internal audit and its effectiveness but also helps to explain the role and responsibilities assigned to internal auditors in an organization (Adams, 1994). This study will therefore rely in the main on the agency theory as its thrust is on the challenges to the effectiveness of internal auditors in micro finance institutions in Nigeria.

4. Literature review

Risk for a micro finance institution is "the possibility of adverse events occurring and their potential for financial losses and negative social performance"(Calvi and Kirimkan, 2015) Internal audit has the key function of reporting to the top management on the functioning of the management control systems and recommending improvements where necessary Risk management constitutes an essential part of the strategic process of any organization . The possibility of an event or activity impacting adversely on an organization, preventing it from achieving organizational goals is called risk. Risk management on the other hand comprises the activities and actions taken to ensure that an organization is conscious of the risks it faces, makes informed decisions in managing these risks and identifies and harnesses potential opportunities(Asaolu *et al*., 2016). Micro finance banking risks can be classified into four categories. These are institutional, external, financial and operational risks. However, for most micro finance institutions in Nigeria operational risk is the most relevant type of risk because it is in this area that a micro finance bank stands to lose most. Operational risks are vulnerabilities faced in the daily activities or operations and includes such risks as fraud and loan delinquency(Okaro and Okafor, 2013). The objective of any effective internal audit in a micro finance bank is not simply detection of fraud and error but to test the effectiveness of preventive controls and procedures put in place. Through analyzing/appraising the adequacy of policies, procedures and systems, the internal auditor participates in preventive control. Through testing and checking for compliance with established policies and procedures, the internal auditor plays a prominent part in detective control as well.

Many researchers have tried to identify the critical success factors that determine internal audit effectiveness in organisations. These include competence of the internal auditors, their independence and management perception of their values and thus their support for the internal audit function (Baharud-din *et al*, 2014; Arum, 2015). A related study from Greece identified quality of internal audit, competence of internal audit team. Independence of internal audit and management support(George and Konstantinos, 2015). Another study identified independence of internal audit system, scope of work, professional competence, examination process and management support as attributes of internal audit effectiveness (Adedokun and Monday, 2016). It is clear that independence of the auditors, competence of internal audit and management support are ranked by many authors as the most important attributes for internal audit effectiveness. However, the lack of consensus on the determinants of internal audit effectiveness has been attributed to the absence of a generally agreed theory underpinning researches in this area(Ali *et al*., 2013). Competence and objectivity of the internal auditor are factors that have been identified as making for internal audit effectiveness (Arum, 2015). A Nigerian study identified risk management, effective internal control system, audit experience, cooperation between internal and external auditors and performance measurement as antecedents for internal audit effectiveness in the Nigerian public sector(S. Badara and Saidin, 2014). Empirical studies on effectiveness of micro finance banks internal audits in developing countries are few. A Nigerian study identified five factors that make for internal audit effectiveness as independence, scope of work, professional competence, examination process and management support. Using a survey research design data obtained was analysed using multiple regression and Pearson correlation coefficient. The result revealed that independence of internal auditors in South- West Nigeria's public sector needed to be improved in addition the governments paying more attention to the recommendations and reports of the auditors. The other remaining factors were considered adequate(Adedokun and Monday, 2016). A related study on internal control effectiveness opined that some internal auditors may not have the courage to report their bosses who go contrary to statutory requirements as the Nigerian environment is replete with situations were internal auditors who wanted to remain true to their profession were either out rightly dismissed or denied promotion as and when due or even slammed a saboteur for "selling the organization to regulatory agencies"(Akinola, 2016). A survey of 41 Libyan internal auditors working in six Libyan banks and three insurance companies revealed that Libyan internal auditors were not versed in public speaking and presentation skills. They also had limited skills in Information Technology (IT) and International Financial Reporting Standards (Elmghaamez and Ntim, 2016)(IFRS) preparation (Elmghaamez and Ntim, 2016). This finding may not be generalized as it could be peculiar to the Libyan environment. An earlier study in 2012 using also the Libyan environment, reported that Libyan auditors of all types lacked independence as they would not voice their disquiet as a result of fear of possible future retaliations. This finding agrees with similar conclusion by Akinola in the Nigerian context. The auditors were not subject to active training and lacked top management support (Zakari *et al*, 2012).

A survey of Bank internal audit function in Albania found out that internal auditors in Albania needed to improve on their expertise and quality of their reports in addition to scaling up to international standards (Kristo, 2013). A questionnaire survey of Accounting and Internal audit staff of a local government in Bauchi state of Nigeria found out that the internal auditors lacked proper independence, were short staffed and did not adhere to professional standards Badara, 2012). A literature search of fraud risk management factors in Ghana identified lack of competent and well -motivated staff as the problem of internal audit in Ghana. Inability to attract competent staff was ascribed to the poor remuneration prevalent in the micro finance sub-sector of the Ghanaian economy. The study also fingered unfettered independence as lacking in internal audit departments of micro finance banks in Ghana (Boateng *et al*., 2014). The issue of poor remuneration which hamstrung the existence of competent and well- motivated internal audit staff in Ghana micro finance banks is again collaborated by another study (Aveh *et al*., 2013). An Ethiopian study identified Internal auditor competence, presence of internal audit charter and management support as having a salutary effect on internal audit effectiveness in the public sector of that country (Hailemariam, 2014). To the best of our knowledge, no Nigerian study empirically investigated internal audit effectiveness in micro finance institutions in Nigeria. Our study contributes in bridging this gap.

5. Methodology of research

A survey research design was adopted for this study. In a survey research design a group people or items are studied by collecting and analysing data from a few members considered to be representative of the group. The method is considered appropriate for this study because we are interested in collecting and analyzing data for a finite population. This design also affords a relatively inexpensive method of data collection(Ogbechie, 2012). Out of a total of 72 unit and state microfinance banks in Anambra state, 18 of the banks were targeted for this study on the basis of accessibility. The managing directors of the banks, head of operations, internal auditor, head of marketing and all officers in the bank that have the CIBN certification on micro financing banking were served the questionnaire structured on the five point likert scale of strongly disagree, disagree, undecided, agree and strongly agree. The questionnaire had two sections. Section A was designed to capture the demographic details of the respondents. Section B had 21, 20 of the questions were on the challenges faced by microfinance internal auditors in the workplace and suggestions for ameliorating the challenges. Question 21 was an unstructured question which allowed respondents free rein to make additional input on the subject matter. The questions were carefully and meticulously chosen. Two Chartered Accountants reviewed the questions in the light of the objectives of the study. Their comments were incorporated in the questionnaire. 135 questionnaires were distributed while 132 were returned and found valid for the purpose of the study. The high response rate of 98% is accounted for by the fact that the questionnaire were delivered and retrieved by hand. Descriptive statistics of mean and standard deviation were used to analyse the responses. We used a novel approach of ranking responses on the basis of strongly agree and on the basis of the mean score to determine the significance of the responses.

5. Results

Table 1. Distribution of Respondents

No of Sent Questionnaire	Number Returned	Number Not Returned	Percentage Returned	Percentage Not Returned
135	128	7	94.81	5.19

Source: Researcher's Field Survey September, 2016

Sex Distribution of Respondents

Table 2 represents the sex pattern of the respondents. From Table 4.2, it is very obvious that 53.91% of the respondents are male while, 46.09% are female. This is an indication that both male are female are active in selected unit micro finance banks in South East Nigeria.

Table 2. Sex Distribution of Respondents

Sex	Respondents	Percentage of Respondents
Male	69	53.91
Female	59	46.09
Total	**128**	**100**

Source: Researcher's Field Survey September, 2016

Work Designation Distribution of Respondents

From Table .3, 14.84 % of the respondents are between are managing directors, 31.25% are internal auditors, 18.75 accounts for heads of operation, 15.63 for heads of credit/marketing while 19. 53% captured other officers of the micro finance banks.

Table 3. Work Designation Distribution of Respondents

Work Designation	Respondents	Percentage of Respondents
Managing Director	19	14.84
Internal Auditor	40	31.25
Head of Operation	24	18.75
Head Credit/Marketing	20	15.63
Other Officers	25	19.53
Total	**128**	**100**

Source: Researcher's Field Survey September, 2016

Educational Qualification Distribution of Respondents

Table 4.4 depicts the categories of qualifications obtained by the respondent, from the Table 4.4, 16.41% of the respondents are holders of higher national diploma, while 29.69% are holders of first degree and 27.34% had postgraduate degrees, while 14.06% certified by ACA, ANAN and similar professional organization, and 12.50% are holders of MCP.

Table 4. Educational Qualification Distribution of Respondents

Educational Qualification	Respondents	Percentage of Respondents
Higher National Diploma	21	16.41
First Degree/ BSc	38	29.69
Postgraduate Degree	35	27.34
Professional Status (ACA,ANAN)	18	14.06
MCP	16	12.50
Total	**128**	**100**

Source: Researcher's Field Survey September, 2016

Working Experience Distribution of Respondents

Table .5 shows that 33.59% of the respondents have spent between 0 – 5 years in unit microfinance, 23.44% has 6 – 10 years working experience, 21.88% between 11-15 working experience, 13.28% has worked 16-20 years while 7.81% have spent more than 21 years.

Table 5. Years of Banking Distribution of Respondents

Years of Banking with a Bank	Respondents	Percentage of Respondents
0-5 years	43	33.59
6-10 years	30	23.44
11-15 years	28	21.88

16-20 years	17	13.28
Above 21 years	10	7.81
Total	**200**	**100**

Source: Researcher's Field Survey September, 2016

Table 6. Distribution of Respondents on Internal Audit Role

Internal Audit Role	SD	D	UD	A	SA	TS	SD	M	R
Internal audit plays an important role in risk management in microfinance banks	4	0	0	35	89	589	38.36	4.60	2nd
Lack of management support is a barrier to effective internal audit in MFBs	4	14	4	63	43	511	26.31	3.99	11th
Lack of independence militates against effective internal audit in MFBs	6	18	9	58	37	486	21.78	3.80	13th
Low professional qualification of internal auditors is a barrier to effective internal audit in MFBs	8	17	2	68	33	485	26.43	3.79	14th
Poor remuneration of internal auditors militate against effective internal audit in MFBs	6	22	24	54	22	448	17.46	3.50	19th
Inadequate financial and material resources for the work of internal auditors militate against their effectiveness	6	22	13	57	30	464	19.76	3.63	17th
Lack of exposure to constant training and re-training militate against effective internal audit in MFBs	2	2	5	65	54	551	31.21	4.30	7th
Poor work specification for the internal auditor militate against effective internal audit in MFBs	2	13	5	67	41	516	27.80	4.03	9th
Lack of laws that strengthen the hands of internal auditors by the regulatory authorities militate against effective internal audit in MFBs	9	20	13	50	36	445	17.10	3.55	18th
Lack of clear reporting lines to top management and the board of internal audit militate against its effectiveness	11	19	9	46	43	475	17.69	3.71	16th
Internal auditors should be well remunerated to enhance their effectiveness	4	6	6	57	55	537	27.77	4.20	8th
Internal auditors should be exposed to constant training and retraining to enhance their performance	2	0	2	50	74	578	34.30	4.52	3rd
A clear reporting line should be established between top management and board of directors and internal audit to enhance their effectiveness	2	2	2	56	67	571	32.82	4.46	4th
The regulatory authorities should provide auditing standard guide to internal auditors in MFBs to enhance their effectiveness	4	2	7	48	67	556	29.94	4.34	6th
Regulatory authorities should approve the dismissal of an internal auditor of MFBs in order to enhance their independence of action	19	39	22	29	19	378	8.53	2.92	20th
Adequate financial and material resources should always be provided to the internal auditor to enhance its effectiveness	2	11	11	65	39	512	26.05	4.00	10th
The scope of the internal auditors should be clearly spelt out to enhance their effectiveness	2	2	4	55	64	558	31.61	4.36	5th
In addition to first degree, professional certification with relevant bodies should be made mandatory for employment as internal auditor	7	13	21	50	37	481	17.67	3.76	15th
Harmonious relationship between management and internal audit will enhance effectiveness of internal audit functions in MFBs	6	22	6	50	44	488	20.71	3.81	12th
Access to relevant information will enhance the effectiveness of internal audit in MFBs	4	0	0	32	92	592	39.46	4.63	1st

Source: Researcher's Field Survey July, 2016

Note: SA = Strongly Agreed; A=Agreed; SD=Strongly Disagreed; DA=Disagreed; UD=Undecided; TS=Total Score; SD-Standard Deviation; M=Mean and R=Rank

Table 7. Descriptive Statistics in respect of Responses on Amelioration of Internal audit Challenges

Responses	SD	D	UN	A	SA	Total	Mean	SD	SA Rank	Mean Rank
Internal auditors should be well remunerated to enhance their effectiveness	4	6	6	57	55	537	27.77	4.20	6th	6th
Internal auditors should be exposed to constant training and retraining to enhance their performance	2	0	2	50	74	578	34.30	4.52	2nd	2nd
A clear reporting line should be established between top management and board of directors and internal audit to enhance their effectiveness	2	2	2	56	67	571	32.82	4.46	3rd	3rd

Responses	SD	D	UN	A	SA	Total	Mean	SD	SA Rank	Mean Rank
The regulatory authorities should provide auditing standard guide to internal auditors in MFBs to enhance their effectiveness	4	2	7	48	67	556	29.94	4.34	5th	5th
Regulatory authorities should approve the dismissal of an internal auditor of MFBs in order to enhance their independence of action	19	39	22	29	19	378	8.53	2.92	10th	10th
Adequate financial and material resources should always be provided to the internal auditor to enhance its effectiveness	2	11	11	65	39	512	26.05	4.00	7th	7th
The scope of the internal auditors should be clearly spelt out to enhance their effectiveness	2	2	4	55	64	558	31.61	4.36	4th	4th
In addition to first degree, professional certification with relevant bodies should be made mandatory for employment as internal auditor	7	13	21	50	37	481	17.67	3.76	9th	9th
Harmonious relationship between management and internal audit will enhance effectiveness of internal audit functions in MFBs	6	22	6	50	44	488	20.71	3.81	8th	8th
Access to relevant information will enhance the effectiveness of internal audit in MFBs	4	0	0	32	92	592	39.46	4.63	Ist	1st

Source: Researcher's Field Survey July, 2016

Note: SA = Strongly Agreed; A=Agreed; SD=Strongly Disagreed; DA=Disagreed; UD=Undecided; TS=Total Score; SD-Standard Deviation; M=Mean and R=Rank

From Table 6, we discover that respondents believe that internal auditors play very important role in risk management in microfinance banks (mean of 4.60 out of 5). Also all but one of the challenges and suggestions for amelioration were accepted by respondents as being applicable to the circumstances of their institutions albeit in varying degrees. Respondents did not, however, agree that regulatory authorities should approve the dismissal of the internal auditor of Microfinance banks as a way of safeguarding their independence. In Table7, we tried to rank the responses in respect of what should be done to empower internal auditors for effective role in risk management on the basis of strongly agree and on the basis of the mean. Three responses were found to be very significant as they were ranked same on both bases. The first most significant response is that access to relevant information will enhance the effectiveness of the internal audit function which scored 92 on the basis of strongly agree and 4.63(out of 5) on the basis of the mean.

The second most important response is that internal auditors should be exposed to constant training and re-training to enhance their effectiveness with a strongly agree score of 72 and mean score of 4.52. The third most important response was that a clear reporting line should be established between the management and the board of directors on one side and the internal auditors on the other side to enhance their effectiveness with a strongly agreed score of 67 and mean score of 4.46. The last question was an unstructured one which allowed respondents' free rein to comment on other factors relevant to the study which they deem germane. Most of the comments centered on the need for training and retraining of internal audit staff, need for board to take seriously audit reports, and need for internal auditors to be independent and avoid overfamiliarity with other members of staff. One respondent remarked that lack of training made the internal auditors lack commitment on the job. Another averred that "board of directors should take seriously the report of internal auditors and not taking sides with the MD's who are high handed. MD's should be made to know the distinct duties of auditors and accept same" Finally another respondent suggested that internal auditors should report to the board rather than to the management as is currently the case.

7. Discussions and recommendations

The present state of internal audit in micro finance institutions in Nigeria as regards effectiveness leaves much to be desired. Our findings agree with similar researches carried out in developing climes like Ghana and Albania and Libya highlighted earlier. If internal auditors are poorly remunerated, lack independence and often do not receive management support, then the blame should be on the Board of

Directors who in this situation are the principals while the internal auditors are the agents. The internal auditors cannot be held responsible for shoddy performance when the Board of Directors have not provided the necessary resources and empowerment needed by them. Respondents emphasized the issue of constant training and retraining of internal audit operators. The issue of poor training for internal auditors is pervasive as public sector internal auditors are also not spared the scourge(Asaolu *et al*., 2016). Access to relevant information was ranked as the most important challenge facing the internal audit function in the MFBs. This means that respondents value the independence of the internal auditor in respect of unfettered access to information. The demand for clear reporting line for internal auditors, by respondents, buttresses their point for independence for the internal auditor. Our findings have implication for internal audit effectiveness theory and practice. As noted earlier a common theoretical framework for the evaluation of internal audit effectiveness has not being agreed. Our study identifies 3 very significant challenges to internal audits in microfinance banks. These are lack of access to vital information, lack of training and re-training opportunities and lack of clear reporting lines by the internal auditor to the management and the board. The first constraint borders on the independence of the internal auditor. The second constraint has implication for management support and internal auditor competence. The third constraint or challenge also has implication for the independence and management support of the internal auditor.

Deriving from this study we posit that any framework for determining the effectiveness of the internal auditor, and thus empowering them in a fraud risk environment, must take cognizance of independence, management support and provisions of training opportunities and the competence of the auditor in terms of availing himself with the training and re-training opportunities when provided. An Indonesian study of determinants internal audit effectiveness using companies quoted in the Indonesian Stock Exchange identified competence and objectivity of the internal auditors as the determinants of internal audit effectiveness. This compares with our own findings which identified independence, management support and competence as the most important factors. The difference in findings of the researches could be explained by the fact that companies quoted on the exchanges are well structured and do fully support their internal audits by way of resources as a matter of routine as they are usually elite companies with enough resources to meet the needs of their internal audits. Our findings also have implication for the regulatory authorities and the management of the microfinance banks. The regulatory authorities should continue to emphasize the independence of internal auditors and the need for management to adequately provide resources to guarantee their competence. If possible the regulatory framework for the supervision of microfinance banks should be amended to emphasize this fact. The management of MFBs should be enlightened by way of seminars to see the need to empower their internal audit units to ensure the suitability of their institutions constantly threatened by fraud.

8. Conclusions

We examined the present state of internal audit in Nigeria, the challenges facing the internal auditors and what can be done to empower them for more effective role in fraud risk management. Three significant challenges among others facing microfinance internal audits were identified. This we did through a questionnaire survey of experienced and qualified practitioner in the industry. We made copious recommendations which include that regulatory authorities should encourage support institutions as well as training institutions to enhance the competence of players in the industry including internal auditors. We also recommended possible amendment of the CBN supervisory framework for micro finance banks to further emphasize the independence of the internal auditors and their empowerment with needed resources. MFB managements should be exposed to seminars to understand the critical role of internal audit in fraud risk management and sustainability of their organisations.

Our study should be viewed in the light of its limitations. First our review of the *present* state of effectiveness of internal audit functions was limited to microfinance banks in Anambra state, Nigeria. Secondly, the bulk of microfinance banks assessed by the researchers through their internal auditors and external auditors were mainly unit banks although some State MFBs were also investigated. The finding on the challenges faced by microfinance bank internal audits may not therefore be generalised. However, in spite of the above limitations, we believe that this study has added to the scanty literature on internal audit effectiveness and empowerment in Nigeria's microfinance institution even as it has discovered perhaps for the first time that any model on effectiveness of internal audit in risk management in unit microfinance banks must include an assessment of the availability of management support and provision of needed resources including access to training facilities for the auditors. Our study has implication for both regulatory and management actions.

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