Internal Audit and Systems of Internal Audit in Greek Banks

Ioanna A. Siouziou
Open University of Cyprus, Nicosia, Cyprus
Kanellos S. Toudas, Marios Menexiadis
Hellenic Open University, Patras, Greece

The aim of this paper is to investigate the necessity of internal audit and evaluation functions that can be served during the period before and after the procedure of a bank merger or acquisition. The functions of internal control before and after starting a bank merger or acquisition and also whether internal auditors recognize the considered functions as those which must be implemented, were considered. Thus, we formed a questionnaire, which was distributed accordingly. The data obtained were processed using methods of descriptive statistics. The results record the value they can provide internal control in the smooth operation of a company in the stages before and after the procedure of a bank merger or acquisition, and reflect the opinion of the auditors on internal matters control according to their professional and cultural characteristics.

Keywords: internal auditing, risk, mergers, acquisitions, systems of internal audit

Introduction

When discussing about risk management and new risks, it is worth mentioning about banks. The major risks that banks need to manage include the operational, the credit, the market risk, liquidity etc. Banks have especially the last five years, developed internal audit systems, with a view to managing significant risks. The mergers and acquisitions as well as the big amount of transactions, made the banks reconsider old internal control systems, since new risks vary and are dynamic.

Internal Auditing and External Auditing

Auditing is a science with increasing importance in the last years (KPMG, 1999), since companies and interested parties have realized the need for disclosure and reliability of published information. External audit is in a position to provide assurance on the reliability of financial information, since it is heavily involved with the compliance with accounting principles, accounting rules, and accounting estimates. Internal auditing is performed from a professional with specific scientific and professional background, who is an employee of the audited company (Negakis & Tachinakis, 2013).

Internal auditing is an independent, objective consulting activity which adds value to the business operations (Brody & Lowe, 2000). According to the Institute of Internal Auditors (IIA, 1999), the objective of the internal
auditing is to support the organization in achieving its goals. This can be achieved by developing a systematic framework, which evaluates the risk management process, control, and governance. Internal Control System, is the total of rules within the organization that contribute to the effectiveness of the organization and its functions providing assurance on the reliability of financial statements and compliance (COSO, 2013; Jensen, 1993). Internal auditing is necessary since after the financial scandals at a global level, the need for a more effective business monitoring, especially for companies at the financial sector (Gortsos, 2006). External auditing that can be performed from the relevant authorities or the chartered accountants, can’t be considered as adequate, since its character is less preventive, while it audits basically historical data (Spira & Page, 2003; Christou, 2006).

An internal control system targets at the application of internal audit services that leads to a cooperation with external auditors (Kantzos & Chondrakis, 2006) while it offers independent appraisals for the information, the procedures, and the company’s systems as well as suggests solutions (Van Gansberghe, 2005).

Internal Audit Systems in Financial Institutions

According to the Act 2577/2006, a bank’s internal control system is the “set of control mechanisms and processes that continuously cover every activity of the credit institution and contributes to its efficient and safe operation”. A principle established by the Act, is the “four eyes” principle, as well as the consultative involvement of the Internal Audit, Risk Management, and Compliance Units in the design of new products and decision-making. Particular emphasis is given to the role of the Internal Audit and Inspection Unit (Paschas, 2006). In addition, the subsidiaries of the group must maintain internal control systems, with the parent holding the role of coordinator (Andreadou, 2006).

The Case of National Bank of Greece

The bank to be studied is the National Bank of Greece during the period 2013-2015. In 2013 the bank proceeded to the acquisition of FBB and Probank. These acquisitions have resulted in the restructuring of the Greek banking system, as well as the risks that NBG undertakes. NBG has a market share of 25% in deposits and retail banking. It has a network of 528 branches and 1,432 ATMs covering the entire Greece. At the same time, the bank develops alternative sales channels for its products, such as Mobile and Internet Banking. In terms of human resources, the Group employs 34,554 employees, who serve a market of 125 million. NBG has subsidiaries in Southeastern Europe, and has recently gone through various strategic moves. The National Bank’s Internal Audit System was evaluated in 2013 by an internationally recognized external consultant for the implementation of the International Standards on Internal Audit and received the highest rating. NBG uses the Thomson Reuters audit methodology, and has close cooperation with external auditors. The National Bank’s Audit Committee was established in 1999 and is currently operating according to the new Basel II standards. In 2014, the internal audit methodology used was updated on the basis of the COSO 2013 principles.

Research Methodology

Purpose, Research Questions, and Research Hypothesis

The purpose of this research is to examine the importance of internal control in banking institutions in general and to investigate its operation before and after bank exposures and mergers. The research questions, are as follows:

(1) How are internal control activities evaluated?
(2) What are the most important internal control activities?
(3) How are internal control functions assessed before a merger and acquisition process is initiated?
(4) What are the most important internal control functions before starting a redemption and merger process?
(5) How are the internal control functions evaluated after the termination of a takeover and merger process?
(6) What are the most important internal control functions after the termination of a takeover and merger process?

In connection with the above research questions, the following research hypotheses are structured:

Research Case 1: Internal audit activities are assessed as particularly significant, in line with the degree of agreement/disagreement among the individuals involved in internal control units.

Research Case 2: There are internal audit activities that are assessed as more important, according to the degree of agreement/disagreement among the individuals involved in internal control units.

Research Case 3: Internal audit functions prior to the start of the takeover/merger process are assessed as particularly significant, in accordance with the degree of agreement/disagreement among the individuals involved in internal control units.

Research Case 4: There are internal control functions prior to the start of the merger process that are assessed as being more significant, according to the degree of agreement/disagreement among the individuals involved in internal control units.

Research Case 5: The post-merger internal control functions are considered to be particularly significant, in accordance with the degree of agreement/disagreement among the individuals involved in internal control units.

Research Tool and Reliability

The research tool consists of a questionnaire created for the purposes of this study. In particular, based on the questionnaires of Salameh, Al-Weshah, Al-Nsour, and Al-Hiyari (2011) and Karagiorgos, Drogalas, and Pantelidis (2011), a new enriched questionnaire was created which was judged to respond to the questions and assumptions of this study. The questionnaire, which is detailed in the Appendix of the study, consists of two units, in which only closed-ended questions are incorporated. These units are as follows:

- Section 1—The Unity of Internal Audit Necessity: This section investigates the internal control activities that show its necessity.
- Section 2—The Pre- and After-Mergers and Mergers Internal Control Roll Module. This module investigates internal control functions before and after the merger and acquisition processes. The questionnaire consists of closed-ended Likert scale questions. Finally, the reliability of the questionnaire was investigated by computing the Cronbach’s Alpha, which is shown in Table 1. According to this, the statistical measure receives values above 80% both in the whole questionnaire and in the question set, which means that its reliability is considered to be extremely satisfactory.

| Unit                                   | No. of questions | Cronbach’s a |
|----------------------------------------|------------------|--------------|
| Internal audit necessity               | 19               | 0.939        |
| Internal audit before and after mergers and acquisitions | 17               | 0.891        |
| Internal audit before mergers and acquisitions | 6               | 0.828        |
| Internal audit after mergers and acquisitions | 11               | 0.856        |
| Total questionnaire                     | 36               | 0.954        |
Statistical Methodology

The statistical methods used are in direct relation to the type of variables they are required to analyze the size of the sample and the parametric or non-formatted data. With regard to descriptive statistical methods, the set of variables is categorical, which makes the frequency tables the most appropriate way of presenting participants’ responses. In addition, because the variables of the modules are also operative (Likert five-digit scale with one corresponding to the answer “absolutely disagree” and five in the answer “absolutely agree”), the average with the standard deviation. Besides the nature of the variables, the size of the sample also played a decisive role. In the present study, non-parametric controls were used (statistical tests of Friedman and Kruskal-Wallis). Friedman’s control is used for $k$ dependent variables and controls the null hypothesis that they all come from the same distribution vs. the alternative that at least one dependent variable does not come from the same distribution. To accept the zero hypothesis, the $p$-value criterion, whose value should be greater than the significance level, is used. Otherwise, the mean values of the variables show that statistically significant differentiations are found (Koliva-Machera & Bora-Senta, 1998). For the acceptance of the zero hypothesis, the $p$-value criterion is used, whose value should again be greater than the significance level. Otherwise, the mean values of the variables show that statistically significant differentiations are found (Kwan, 1999). It is worth mentioning that the level of significance of the present study was chosen at 5%, while all of the above methods were implemented through the Statistical Package for Social Sciences (SPSS). The study population consists of the internal auditors of the banks to which the general rule applies that the employees in the Bank’s Internal Audit Division corresponds to 1% of the number of employees. Our sample refers to the managers of the 25 numbering departments. This was followed by the simple random sampling method and the sample that resulted was 21 individuals of that address who completed the questionnaire following personal interviews.

Internal Audit Necessity

Table 2 lists the responses of the 21 participants in terms of their degree of agreement or disagreement about the need for internal control. According to the latter, in descending order of rank, the statements are classified as follows:

1. Internal audit evaluates the adequacy of risk management and suggests improvement actions (Average $= 4.62 \pm SD = 0.50$).
2. The internal audit proceeds to assess the adequacy of the company’s safety valves (Average $= 4.62 \pm SD = 0.74$).
3. Internal audit reports improve the ability of employees and the Board of Directors to choose procedures that reduce the risk of financial fraud (Average $= 4.57 \pm SD = 0.51$).
4. The internal audit may judge the adequacy of the operational risk, by evaluating the procedures followed and proposing corrective actions (Average $= 4.48 \pm SD = 0.75$).
5. Internal control strengthens the company’s effort to achieve the goals and objectives it has set (Average $= 4.43 \pm SD = 0.87$).
6. Internal control contributes to addressing operational risk by detecting system malfunctions (Average $= 4.38 \pm SD = 0.74$).
7. The use of internal control helps to address problems related to employee misuse of assets (Average $= 4.33 \pm SD = 1.24$).
Internal Auditing and Systems of Internal Audit in Greek Banks

(8) Internal control contributes to addressing operational risk by identifying human errors and proposing proposals to reduce them (Average = 4.33 ± SD = 0.91).

(9) The internal audit controls the provision of reliable information to interested parties (Average = 4.24 ± SD = 0.89).

(10) Internal control contributes to improving the reputation and value of the enterprise (Average = 4.19 ± SD = 0.87).

(11) Internal control contributes to avoiding problems such as profit manipulation and inadvertent errors in the preparation of the financial statements (Average = 4.14 ± SD = 0.65).

(12) Internal control reports are easily understood (Average = 4.10 ± SD = 0.54).

(13) The internal control unit contributes to the continuous improvement of the work monitoring process (Average = 4.10 ± SD = 0.62).

(14) Internal control acts as a mediator in the company’s relationship with the audit authorities by providing reliable information (Average = 3.95 ± SD = 0.67).

(15) Internal audit proposes corrective actions aimed at optimizing the utilization of corporate resources (Average = 3.90 ± SD = 0.83).

(16) The unit communicates with the whole company and proposes solutions to problems that can lead to financial fraud (Average = 3.76 ± SD = 1.34).

(17) The internal control controls the actions of the management and identifies any weaknesses (Average = 3.67 ± SD = 1.15).

(18) The internal audit unit contributes through suggestions so that all employees of the company understand how to reduce the risk of financial fraud (Average = 3.57 ± SD = 1.03).

(19) Internal control and risk management should be treated in a uniform manner (Average = 2.48 ± SD = 0.81).

There are significant differences in the degree of agreement of the participants in the various statements regarding the necessity of internal control. Some of these variations, according to the Friedman test, are statistically significant ($\chi^2 = 130.74, p < 0.05$). Therefore, statements can be grouped into three groups. The first group includes the first 13 statements as ranked in descending order of the degree of agreement, which average is higher than 4. It is the group of internal control capabilities identified as most important by the sample and refers to its ability to increase the company’s surplus value by addressing the sources of risk and the related phenomena by providing timely, validly, and easily understandable information. The second group includes the next five statements, averaging between 3 and 4, referring to the ability of internal control to communicate its goals across the enterprise and to effectively control senior executives of its management. Finally, the third group identifies only one statement, which identifies whether risk management and internal control should be treated in a uniform manner. This statement also brings the lowest average, which is only 2.48.

**Internal Audit Function Before the Merger-Acquisition**

Table 3 lists the responses of the 21 participants with regard to their degree of agreement or disagreement in the six statements regarding the functions performed by the audit before the start of the merger-acquisition process. This table also shows the averages derived from the stated degrees of agreement and the relative standard deviations. According to the latter, in decreasing order of rank on the degree of agreement, statements are classified as follows with regard to the functioning of internal control before the opening of proceedings:
Evaluates the quality of the organizational structure (Average = 3.80 ± SD = 0.62); Assesses whether the financial results of the two companies are accurate (Average = 3.70 ± SD = 0.80); Estimates the efficiency of the operations of the new business (Average = 3.40 ± SD = 0.75); Confirms the ways in which value is added to the overall business (Average = 3.25 ± SD = 0.77); Takes note of the political, economic, social, and technological external conditions (Average = 2.90 ± SD = 0.91); Examines whether the financial data of the companies justify the redemption/merger (Average = 2.90 ± SD = 0.91).

There are significant differences in the degree of agreement of the participants in the various statements regarding the internal control functions before the start of the merger/takeover process. Some of these variations, according to the Friedman test, are statistically significant ($\chi^2 = 30.25, p < 0.05$). Therefore, statements can be grouped into three groups. The first group includes the first two statements, as ranked in descending order of grade, which average an average of more than 3.5. It is the group of internal control functions identified as most important by the sample and refers to the assessment of the current situation of the two enterprises. The second group includes the following two statements, averaging between 3 and 3.5, referring to the ability of the internal audit to assess the future situation in which the new business that will be created will work. Finally, the third group includes the last two statements, which present an average of less than 3 and refer to the ability of the internal audit to take account of the environment and thereby assess the necessity of the merger or acquisition.

The Internal Audit Function After the Merger-Acquisition

Table 4 shows the distribution of 21 respondents’ responses to their degree of agreement or dissent in the six statements about the functions performed by the audit after the expiration of the Merger-acquisition process. This table also shows the averages derived from the stated degrees of agreement and the relative standard deviations. According to the latter, in decreasing order of rank in the degree of agreement, declarations are classified as follows with regard to the operation of internal control after the end of the procedure: Configures the new internal control unit (Average = 4.30 ± SD = 0.57). It is called to be reorganized with executives of both enterprises (Average = 4.24 ± SD = 0.62); Proposes to the management mechanisms for securing the assets of the new company (Average = 3.80 ± SD = 0.77); Recognizes opportunities to consolidate the work of the two companies (Average = 3.60 ± SD = 0.75); Finds mechanisms to safeguard the assets of the new company (Average = 3.50 ± SD = 1.00); Compares the results with the set goals (Average = 3.30 ± SD = 0.66); Controls the terms of the acquisition-merger (Average = 3.15 ± SD = 0.67).

There are significant differences in the degree of agreement of the participants in the various statements regarding the internal control functions after the merger-acquisition process. Some of these variations, according to the Friedman test, are statistically significant ($\chi^2 = 86.60, p < 0.05$). Therefore, statements can be grouped into three groups. The first group includes the first four statements as ranked in descending order of the degree of agreement, which average an average higher than 4. It is the group of those internal control functions identified as most important by the sample and refers to the creation, organization, and staffing of the new single internal audit unit. The second group includes the following six statements, averaging between 3 and 4, referring to the capacity of the internal audit to consolidate the activities and functions of the new single entity, and to check the conditions by which they were consolidated. Finally, the third group includes only the last statement, which shows an average of less than three and refers to the contribution of internal control to the motivation of employees.
### Table 2
**Replies Related to Internal Audit Necessity and Friedman Test**

| Internal auditing                                                                 | Totally disagree | Disagree | Neither disagree, nor agree | Totally agree | Average | SD | Friedman test |
|----------------------------------------------------------------------------------|------------------|----------|-----------------------------|---------------|---------|----|---------------|
| Strengthens the company’s attempt to achieve its targets and goals.             | N 0              | 1        | 2                           | 5             | 13      | 4.43| N/A           |
|                                                                                  | % 0.0            | 4.8      | 9.5                         | 23.8          | 61.9    |    | N/A           |
| Evaluates the reasonable assurance of risk management and suggests corrective actions. | N 0              | 0        | 0                           | 8             | 13      | 4.62| N/A           |
|                                                                                  | % 0.0            | 0.0      | 0.0                         | 38.1          | 61.9    |    | N/A           |
| Estimations on the reasonable assurance of controls within the company.         | N 0              | 0        | 3                           | 2             | 16      | 4.62| N/A           |
|                                                                                  | % 0.0            | 0.0      | 0.0                         | 14.3          | 9.5     |    | N/A           |
| Audits management decisions and detects weaknesses.                             | N 0              | 0        | 3                           | 14.3          | 33.3    |    | N/A           |
|                                                                                  | % 0.0            | 23.8     | 3                           | 7             | 28.6    |    | N/A           |
| Suggests corrective actions with a view to the effectiveness of company resources.| N 0              | 0        | 2                           | 13            | 4       | 3.90| N/A           |
|                                                                                  | % 0.0            | 0.0      | 9.5                         | 3            | 38.1    |    | N/A           |
| Contributes to the company’s reputation and value.                              | N 0              | 2        | 0                           | 11            | 8       | 4.19| N/A           |
|                                                                                  | % 0.0            | 9.5      | 0.0                         | 52.4          | 38.1    |    | N/A           |
| Controls the reliability of financial information to the interested parties.    | N 0              | 0        | 1                           | 3             | 7       | 4.24| N/A           |
|                                                                                  | % 0.0            | 4.8      | 4.8                         | 14.3          | 47.6    |    | N/A           |
| Contributes to problems avoidance i.e. mistakes at the financial statements preparation. | N 0              | 0        | 0                           | 3             | 12      | 6   | N/A           |
|                                                                                  | % 0.0            | 0.0      | 0.0                         | 14.3          | 28.6    |    | N/A           |
| Acts as intermediate between the company and the relevant authorities.           | N 0              | 0        | 1                           | 15            | 3       | 3.95| N/A           |
|                                                                                  | % 0.0            | 4.8      | 9.5                         | 71.4          | 14.3    |    | N/A           |
| Internal audit use to fraud cases i.e. misuse of company’s assets from its employees. | N 0              | 0        | 1                           | 4             | 14      | 4.33| N/A           |
|                                                                                  | % 9.5            | 0.0      | 4.8                         | 19.0          | 66.7    |    | N/A           |
| Audit reports facilitate the employees and the BOD members to select procedures that reduce the financial fraud risk. | N 0              | 0        | 0                           | 9             | 12      | 4.57| N/A           |
|                                                                                  | % 0.0            | 0.0      | 0.0                         | 42.9          | 57.1    |    | N/A           |
| Internal audit contributes to the continuing monitoring procedure.              | N 0              | 0        | 3                           | 13            | 5       | 4.10| N/A           |
|                                                                                  | % 0.0            | 0.0      | 0.0                         | 14.3          | 61.9    |    | N/A           |
| Internal audit communicates with all the company units and suggests solutions to issues that may lead to financial fraud. | N 0              | 0        | 3                           | 9             | 7       | 3.76| N/A           |
|                                                                                  | % 9.5            | 14.3     | 0.0                         | 42.9          | 33.3    |    | N/A           |
| Internal audit contributes through recommendations, so that company employees understand the ways to reduce financial fraud. | N 0              | 0        | 5                           | 2             | 11      | 3   | N/A           |
|                                                                                  | % 0.0            | 23.8     | 9.5                         | 52.4          | 14.3    |    | N/A           |
| Audit reports are understandable.                                              | N 0              | 0        | 2                           | 15            | 4       | 4.10| N/A           |
|                                                                                  | % 0.0            | 0.0      | 9.5                         | 42.9          | 57.1    |    | N/A           |
### Internal Auditing

| Internal audit function at the stage before the commencement of the procedure of the merger-acquisition: | Totally disagree | Agree | Neither disagree, nor agree | Agree | Totally agree | Average | SD | Friedman test |
|-------------------------------------------------|-----------------|-------|-----------------------------|-------|---------------|---------|----|--------------|
| Estimates political, financial, social, and technological conditions. | N 0 7 | 4 | 1 | 2.90 | 0.91 |
| % 0.0 20.0 | 20.0 | 5.0 | 3.70 | 0.80 |
| Estimates the level of the financial results accuracy for both companies. | N 0 4 | 12 | 2 | 2.90 | 0.91 |
| % 0.0 20.0 | 60.0 | 10.0 | 3.70 | 0.80 |
| Evaluates whether the financial data of both companies reason the merger-acquisition. | N 0 4 | 7 | 1 | 2.90 | 0.91 |
| % 0.0 20.0 | 35.0 | 5.0 | 3.70 | 0.80 |
| Confirms the ways that value will be added at the new company. | N 0 2 | 12 | 5 | 3.25 | 0.72 |
| % 0.0 10.0 | 60.0 | 5.0 | 3.40 | 0.75 |
| Evaluates the operations effectiveness of the new company. | N 0 2 | 9 | 8 | 3.40 | 0.75 |
| % 0.0 10.0 | 45.0 | 5.0 | 3.40 | 0.75 |
| Evaluates the quality of the organizational structure. | N 0 6 | 12 | 2 | 3.80 | 0.62 |
| % 0.0 0.0 | 60.0 | 10.0 | 3.80 | 0.62 |

*Note.* *Statistical material at a 5% level.
Table 4

Replies Related to the Internal Audit Function After the Completion of the Merger-Acquisition Procedure and Friedman Test

| Task                                                                 | Totally disagree | Agree  | Neither disagree, nor agree | Agree  | Totally agree | Average | SD  | Friedman test | X² | P-value |
|----------------------------------------------------------------------|------------------|--------|-----------------------------|--------|---------------|---------|-----|---------------|----|---------|
| Audits the terms of merger-acquisition.                             | N 0              | 2      | 14                          | 3      | 1             | 3.15    | 0.67|               |    |         |
|                                                                      | % 0.0            | 10.0   | 70.0                        | 15.0   | 5.0           |         |     |               |    |         |
| Develops the new internal audit unit.                               | N 0              | 0      | 1                           | 12     | 7             | 4.30    | 0.57|               |    |         |
|                                                                      | % 0.0            | 0.0    | 5.0                         | 60.0   | 35.0          |         |     |               |    |         |
| Its contribution at the target setting, may contribute to the employees motivation. | N 3              | 6      | 6                           | 4      | 1             | 2.70    | 1.13|               |    |         |
|                                                                      | % 15.0           | 30.0   | 30.0                        | 20.0   | 5.0           |         |     |               |    |         |
| Develops mechanisms for the safeguarding of the new company’s assets.| N 0              | 4      | 5                           | 8      | 3             | 3.50    | 1.00|               |    |         |
|                                                                      | % 0.0            | 20.0   | 25.0                        | 40.0   | 15.0          |         |     |               |    |         |
| Reconstruction with staff of both companies.                        | N 0              | 0      | 2                           | 12     | 7             | 4.24    | 0.62|               |    |         |
|                                                                      | % 0.0            | 0.0    | 9.5                         | 57.1   | 33.3          |         |     |               |    |         |
| Training of the staff of the new internal audit unit, so as to operate in uniformity. | N 0              | 1      | 2                           | 9      | 9             | 4.24    | 0.83|               |    |         |
|                                                                      | % 0.0            | 4.8    | 9.5                         | 42.9   | 42.9          |         |     |               |    |         |
| Trainings to new internal audit staff, so that they join the unit.  | N 0              | 2      | 0                           | 10     | 9             | 4.24    | 0.89|               |    |         |
|                                                                      | % 0.0            | 9.5    | 0.0                         | 47.6   | 42.9          |         |     |               |    |         |
| Trainings to employees, so that they should understand the company’s standards. | N 4              | 1      | 10                          | 1      | 5             | 3.10    | 1.37|               |    |         |
|                                                                      | % 19.0           | 4.8    | 47.6                        | 4.8    | 23.8          |         |     |               |    |         |
| Suggests management, mechanisms for the safeguarding new company’s assets. | N 0              | 1      | 5                           | 11     | 3             | 3.80    | 0.77|               |    |         |
|                                                                      | % 0.0            | 5.0    | 25.0                        | 55.0   | 15.0          |         |     |               |    |         |
| Recognizes opportunities for the consolidation of operations of the companies. | N 0              | 2      | 5                           | 12     | 1             | 3.60    | 0.75|               |    |         |
|                                                                      | % 0.0            | 10.0   | 25.0                        | 60.0   | 5.0           |         |     |               |    |         |
| Compares the results with the targets.                             | N 0              | 1      | 13                          | 5      | 1             | 3.30    | 0.66|               |    |         |
|                                                                      | % 0.0            | 5.0    | 65.0                        | 25.0   | 5.0           |         |     |               |    |         |

Note. * Statistical material at a 5% level
Conclusions

With regards to the need for internal control in the NBG, all participants are at least neutral with respect to the activities they are considering with a majority of at least agreeing, which demonstrates the importance that internal auditors recognize in their internal audit activities. Indicatively, the only statement that gathered an average of less than 3 (a price that corresponds to, nor disagree or agree) was the statement that “internal control and risk management must be treated in a uniform manner”, while all other statements are averaged terms higher than 3.57. However, the degree of agreement between auditors differs according to the subject matter of the statement in question. Thus, the highest degree of agreement is made by the proposals that refer to the need for internal control to improve the value of the firm either by providing reliable information or by effective risk management. Following are the proposals referring to the ability of internal control to diffuse its principles and rules in the whole of the enterprise, while the last sentence with the difference is the above proposition which gathers the lowest arithmetic mean. Therefore, internal auditors recognize the high value of internal control in improving the bank’s operations, but appear less confident about achieving this improvement. Regarding the internal control functions before the start of the bank redemption or merger process, the internal auditors recognize four of the six functions considered as those that will necessarily have to be implemented. Therefore, once again, the internal auditors appear as advocates of the functions that the internal audit is required to implement before the process begins. Exceptions here are the suggestions that internal control “takes into account the political, economic, social, and technological external conditions” and “examines whether the financial data of the companies justify the acquisition/merger”, which are the only ones with an average lower by 3. However, the functions considered do not gain the same degree of agreement on the part of the participants. In particular, the highest level is those in the assessment of the former situation of the two companies, intermediate in the ones referred to in the assessment of the internal control for the future consolidated situation of the two enterprises, while the lowest degree of those mentioned in the assessment by the domestic control of the environment in which the process is implemented. Finally, with regard to the internal control functions after the end of the bank redemption or merger process, the internal auditors recognize seven of the 11 functions considered as those that will necessarily have to be implemented. Again, in other words, internal auditors appear as advocates of the functions the internal audit is called upon to carry out after the end of the process.

References

Andreadou, D. (2006). Application of internal control systems in banks. Bulletin of Hellenic Bank Association, 1, 49-56.
Brody, R. G., & Lowe, D. J. (2000). The new role of the internal auditor: Implications for internal auditor objectivity. International Journal of Auditing, 4(3), 169-176.
Christou, C. S. (2006). Regulatory compliance within the internal audit system. Bulletin of Hellenic Bank Association, 1, 63-68.
Committee of Sponsoring Organizations (COSO). (2013). Internal control—Integrated Framework. Executive summary, May.
Gortos, X. B. (2006). The new framework and evaluation criteria of internal control systems for financial institutions, a systemic review. Bulletin of Hellenic Bank Association, 1, 23-32.
Institute of Internal Auditors (IIA). (1999). Official web page: www.theiia.org
Jensen, M. C. (1993). The modern industrial revolution, exit and the failure of internal control systems. Journal of Finance, July, 1-69.
Kantzos, C., & Chondraki, A. (2006). Auditing theory and practice. Athens: Stamoulis Publications.
Karagiorgos, T., Drogalas, G., & Pantelidis, P. (2011). Internal audit and mergers and acquisitions.
Koliva-Machera, F., & Bora Senta, E. (1998). Statistics—Theory and applications. Thessaloniki: ZTHF Publications.
Appendix

Research questionnaire

Unit A. Internal audit necessity

The below statements indicate the level of agreement or disagreement at the relevant area.

| Question                                                                 | Totally disagree | Disagree | Neither disagree, Agree nor agree | Totally agree |
|-------------------------------------------------------------------------|------------------|----------|----------------------------------|---------------|
| 1. Strengthens the company’s attempt to achieve its targets and goals. |                  |          |                                  |               |
| 2. Evaluates the reasonable assurance of risk management and suggests   |                  |          |                                  |               |
| corrective actions.                                                     |                  |          |                                  |               |
| 3. Evaluates the reasonable assurance of risk management and suggests   |                  |          |                                  |               |
| corrective actions.                                                     |                  |          |                                  |               |
| 4. Audits management decisions and detects weaknesses.                  |                  |          |                                  |               |
| 5. Estimates the reasonable assurance of controls within the company.   |                  |          |                                  |               |
| 6. Contributes to the company’s reputation and value.                   |                  |          |                                  |               |
| 7. Controls the reliability of financial information to the interested parties. |                  |          |                                  |               |
| 8. Contributes to problems avoidance i.e. mistakes at the financial statements preparation. |                  |          |                                  |               |
| 9. Acts as intermediate between the company and the relevant authorities.|                  |          |                                  |               |
| 10. Acts as intermediate between the company and the relevant authorities. |                  |          |                                  |               |
| 11. Audit reports facilitate the employees and the BOD members to select procedures that reduce the financial fraud risk. |                  |          |                                  |               |
| 12. Internal audit use to fraud cases i.e. misuse of company’s assets from its employees. |                  |          |                                  |               |
| 13. Internal audit communicates with all the company units and suggests solutions to issues that may lead to financial fraud. |                  |          |                                  |               |
| 14. Audit reports facilitate the employees and the BOD members to select procedures that reduce the financial fraud risk. |                  |          |                                  |               |
| 15. Audit reports are understandable.                                   |                  |          |                                  |               |
| 16. Internal audit contributes to the continuing monitoring procedure.  |                  |          |                                  |               |
| 17. May evaluate the assurance of operational risk, through the evaluation of applied procedures and recommended actions. |                  |          |                                  |               |
| 18. Internal Audit communicates with all the company units and suggests solutions to issues that may lead to financial fraud. |                  |          |                                  |               |
| 19. Contributes to operational risk management, through the detection, through the detection of human mistakes and recommended actions. |                  |          |                                  |               |
### Unit B. Internal audit before and after mergers and acquisitions

The below statements indicate the level of agreement or disagreement at the relevant area.

| Question                                                                 | Totally disagree | Disagree | Neither disagree, nor agree | Totally agree |
|--------------------------------------------------------------------------|------------------|----------|----------------------------|---------------|
| The internal audit function before the commencement of the procedure of merger-acquisition: |                  |          |                            |               |
| 20. Estimates political, financial, social and technological conditions. |                  |          |                            |               |
| 21. Estimates the level of the financial results accuracy for both companies. |                  |          |                            |               |
| 22. Estimates the level of the financial results accuracy for both companies. |                  |          |                            |               |
| 23. Confirms the ways that value will be added at the new company.        |                  |          |                            |               |
| 24. Evaluates whether the financial data of both companies reason the merger-acquisition. |                  |          |                            |               |
| 25. Evaluates the quality of the organizational structure.                |                  |          |                            |               |
| The internal audit function after the completion of the procedure of merger-acquisition: |                  |          |                            |               |
| 26. Audits the terms of merger-acquisition.                              |                  |          |                            |               |
| 27. Develops the new Internal Audit unit.                                |                  |          |                            |               |
| 28. Develops the new Internal Audit unit.                                |                  |          |                            |               |
| 29. Develops mechanisms for the safeguarding of the new company’s assets. |                  |          |                            |               |
| 30. Reconstruction with staff of both companies.                         |                  |          |                            |               |
| 31. Training of the staff of the new internal audit unit, so as to operate in uniformity. |                  |          |                            |               |
| 32. Training of the staff of the new internal audit unit, so as to operate in uniformity. |                  |          |                            |               |
| 33. Trainings to employees, so that they should understand the company’s standards. |                  |          |                            |               |
| 34. Suggests management, mechanisms for the safeguarding new company’s assets. |                  |          |                            |               |
| 35. Recognizes opportunities for the consolidation of operations of the companies. |                  |          |                            |               |
| 36. Recognizes opportunities for the consolidation of operations of the companies. |                  |          |                            |               |