

Co-operation between Internal and External Auditors: A Comparative Study on Nationalized and Foreign Banks in Bangladesh

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Effective co-operation between internal and external audit leads to a range of benefits for both parties, and the clients they serve. This study comparatively examines the influence of different factors on co-operation between internal and external auditors of foreign banks with nationalized banks in Bangladesh. Empirical evidence reveals that co-operation promoted through management and the audit committee is the most important factor for assessing co-operation between internal and external auditors in both nationalized banks and foreign banks. The overall comparative analysis shows that the total difference regarding the contribution of diverse factors on assessing the co-operation between internal and external auditors between nationalized banks and foreign banks is insignificant. But the position of nationalized banks is better than foreign banks in Bangladesh.

Keywords: Internal auditor, External auditor, Co-operation, Nationalized banks, Foreign banks.

Field of Research: Auditing.

1. Introduction

Internal auditors are employees of a company hired to assess and evaluate its system of internal control. To maintain independence, they present their reports directly to the board of directors or to top management. They provide functional operation to the concern. Internal auditors are employed by the organization they audit; their familiarity with the organization provides more insight into potential fraud and wrongdoing. External auditors are independent staff assigned by an audit firm to assess and evaluate financial statements of their clients or to perform other agreed-upon evaluations. Most external auditors are employed by accounting firms for annual engagements. They are called upon from outside the company. However, two sorts of auditor's goal are not the same. The internal auditor is assigned by the management of the bank. They are assigned to find out whether everything is going properly or not. If any problem exists they have to bring it to the notice of the top management and then the concerned authorities take necessary action. But in case of external audit the auditors come from outside and they are assigned by the shareholders. They audit on behalf of the shareholders and the findings they publish on the annual report also give independent opinion. The internal or management auditors work within the organization, so they have better knowledge regarding the organization.

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They may help the external auditors in many cases. This is very important for both the auditors to assist each other. The external auditors are unfamiliar persons in an organization. So they need help from the internal auditors. And to work properly, internal auditors also need to help external auditors. The co-operation of internal audit activity with external audit activity is very important from both points of view: from external audit's point of view it is important because, it helps external auditors to raise the efficiency of financial statements audit; the relevancy from internal audit's point of view is assured by the fact that this co-ordination assures for the internal audit a plus of essential information in the assessment of risks control (Dobroțeanu, L.& Dobroțeanu C.L., 2002).

Proper co-ordination can direct to professional and successful audits as there is no unnecessary replication of efforts and auditors can focus on other tasks. With the escalating scandals and frauds, regulators are specifying newer requirements to increase the accuracy of financial reports. In this environment, co-ordination between auditors is one of the methods by which companies can improve their perceived trustworthiness. This study would be of particular relevance to Bangladesh, because it would help assess the effects of different factors on co-operation between internal and external auditors of foreign banks and nationalized banks in Bangladesh.

This study is descriptive in nature. It commences with discussion on some prior studies relating to this issue followed by objective and methodology of the study, overview of co-operation between internal and external auditors, discussion on results.

2. Literature Review

Mutual assistance between internal and external auditor would lead to reduction of the extent of details. Test checks may be resorted to. Examples of co-ordinated work are: reliance by statutory auditors on the system of internal check, confirmation of accounts, verification of assets and liabilities and audit working schedules (Saeed, 1996). When conducting an independent audit for a large company having an internal audit staff, external auditors need to evaluate the internal auditors' functions. These functions consist of the internal auditors' competence, objectivity, and work performance. The key to an effective independent audit is to provide adequate lines of communication between the internal and external auditors in order that these internal audit functions can be adequately evaluated by the external auditors. Because of the external auditors' reliance on these internal audit functions and because of the scope of the audit, sometimes tension enters into this relationship. This behavioral aspect is extremely important because of the working team relationship that must exist. If it does not exist, it is likely that this behavioral aspect can significantly influence many audit decisions made by the external auditors (Golen, 2008).

Co-operation between the internal and external auditors is crucial due to the fast rate of technological advances. The external auditor, without the assistance of the internal auditor, would be too expensive as there are a vast variety of systems in use among his clients. The internal auditor could evaluate control systems and report to the external one who evaluates the quality of the report. The external auditor does not have the time

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or flexibility to be involved in the systems development life cycle and should depend on the internal auditor's findings and evaluations (Brown, 1983).

Once the value of internal controls has been determined to be acceptable, the external auditor can benefit from relying on the internal auditor. The internal and external auditors have several common objectives. The benefits of a co-operative relationship between the two include reduction of fee, improved client-relationship, improved understanding by the external auditor of the organization operations, and information relevant in evaluating internal control. The internal audit department can benefit by knowledge of the external auditor concerning other similar businesses or organizations. Reliance by the external auditor can be placed on the internal auditor in two ways - on the work generated by the internal auditor through the system and work requested by the external auditor and performed by the internal auditor. Testing for reliance of the internal auditor is similar to testing in the external audit process. The auditor evaluates competence and objectivity on the basis of compliance and substantive procedures. The ever-growing complexity and increasing size of organizations makes reliance on internal auditors more necessary. The degree of reliance will be dependent on the external auditor's judgment (Cockburn, 1984).

A broad range of ways to achieve co-ordination and co-operation between external auditors and internal auditors are possible. The degree of co-ordination and co-operation may vary depending on circumstances, including considerations of independence and legislative restrictions. Methods of co-ordination and co-operation may include communication of audit planning / audit strategy, regular meetings between external auditors and internal auditors, arrangements for the sharing of information ,communication of audit reports to each other, organizing common training programs and courses, and sharing training material, developing methodologies, sharing training material, methodologies and audit work programs, granting access to audit documentation, lending of staff , use of certain aspects of each other's work to determine the nature, timing and extent of audit procedures to be performed and joint audits for specific areas etc.

Internal auditors considered co-operation between internal and external audits to be limited, although external auditors were more positive about the extent of co-operation when the internal audit department was of high quality. The extent of reliance by the external auditor on the work of the internal auditor varied with the quality of the internal audit department. External auditors suggested that the objectivity, competence and work experience were important factors affecting the reliance decision. They felt that the internal audit function in many Saudi companies lacked professionalism and independence from management, which adversely affected its work and the potential for reliance thereon (Al-Twaijry, 2004).

Inherent in the co-ordination and co-operation process are certain risks which should be managed, such as 1) Any compromise of confidentiality, independence and objectivity, 2) Possible conflicts of interest, 3)Developing incorrect conclusions when using the work of internal auditors, 4) Possible difference of conclusions or opinions on the work

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performed by the other party (potential risk of loss of credibility of either party), 5) The possibility that findings of the other auditor may be prematurely communicated to an external party (without taking the sole responsibility for these findings), before sufficient audit evidence exists to support those findings, 6) Not considering constraints or restrictions placed on the other auditor in determining the extent of co-ordination and co-operation.

Though the issue of co-operation between internal and external auditors has got huge attention in last few decades, there is no doubt that most of the studies related to this issue were done in the context of the developed countries in the world. Very few studies were done related to the developing countries and especially in context of Bangladesh. In essence, one prior study conducted by Fowzia, 2009 was found. This study investigated into the sound effects of diverse factors on co-operation between internal and external auditors of listed banks in Bangladesh. Findings revealed that co-operation promoted through management and the audit committee is the most important factor for assessing co-operation between internal and external auditors followed by professional confidence, co-operation and consultation, reliance on internal audit and communication.

3. Objective of the study

The main objective of the study is to compare the effects of different factors on co-operation between internal and external auditors of foreign banks with nationalized banks in Bangladesh.

4. Methodology of the study

Target population

The target population for the purpose of the study is nationalized and foreign banks in Bangladesh.

Sample size

Out of 9 foreign banks 3 of them namely, Bank Al Falah Ltd., Bank of Ceylon and HSBC which have been recently established in 2005, 2003 and 1996 respectively in Bangladesh and the existing three nationalized banks, namely Sonali Bank Ltd., Janata Bank Ltd. and Agrani Bank Ltd. in Bangladesh have been considered in this study.

Sampling technique

There are total 3 nationalized banks in Bangladesh. So, this study considered those nationalized banks purposively. Also 3 foreign banks out of 9 have been selected purposively on most recent establishment basis.

Data collection

This study has been based on both primary and secondary data. Primary data were obtained along with a structured survey questionnaire. Survey questionnaire was

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prepared on the basis of 5-point Likert measurement scale where “always” equals to 5 and “never” equals to 1. Secondary source of data included review of scholarly journals, different websites, text books, working papers etc.

Data analysis

In this study Cronbach Co-efficient Alpha has been used to get the data on the variables considered. Data have been analyzed by using descriptive statistical tools such as mean score in order to make comparison between nationalized and foreign banks.

Study period

Time period of this study was October to December, 2009.

5. Overview of Co-operation between Internal and External auditors

The descriptions related to relationship between internal auditing and the external auditor according to BSA-610, “Considering the work of internal auditing”, under the paragraph 6, 7 and 8 are as below:

6. The role of internal auditing is determined by management, and its objectives differ from those of the external auditor who is appointed to report independently on the financial statements. The internal audit function’s objectives vary according to management’s requirements. The external auditor’s primary concern is whether the financial statements are free of material misstatements.

7. Nevertheless some of the means of achieving their respective objectives are often similar and thus certain aspects of internal auditing may be useful in determining the nature, timing and extent of external audit procedures.

8. Internal auditing is part of the entity. Irrespective of the degree of autonomy and objectivity of internal auditing, it cannot achieve the same degree of independence as required of the external auditor when expressing an opinion on the financial statements. The external auditor has sole responsibility for the audit opinion expressed, and that responsibility is not reduced by any use made of internal auditing. All judgments relating to the audit of the financial statements are those of the external auditor.

Best practice of co-operation is built on commitment, consultation, communication and confidence. The application of these concepts is fundamental to building effective co-operation and underpins all aspects of internal and external auditor relations. A number of the issues identified below:

Commitment to performance

Effective co-operation between internal and external audit can only be achieved where both parties are committed to developing co-ordination and effective audit services. Internal and external auditors have their respective roles, responsibilities and accountabilities. Co-operation is likely to be most successful where both parties take an

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active role in promoting co-operation and are willing to undertake changes to help bring it about. In short, commitment is an attitude of mind.

Regular & liberated consultation

Regular consultation between internal and external auditors provides the basis for identifying opportunities for beneficial co-operation and the mechanism for helping to bring it about. Even where internal and external auditors are not working together in a particular area there may be circumstances where they wish to consult with each other on particular issues or on specific audit findings. While auditors will consult directly on their work, management also has an important part to play in promoting consultation. Ideally this should be achieved through the audit committee. Where its remit extends to the consideration of external audit activity, the audit committee can be a useful forum for promoting co-operation between auditors.

Regular & open communication

Communication is a bilateral process. Regular and open communication between internal and external auditors is essential to the success of co-operation. Auditors should establish common understanding on the timing and nature of such communications. Formal communication can include regular meetings, particularly to look at future plans to identify opportunities for co-operation; to avoid duplication of effort; and to forge methods for the sharing of audit findings and other information. There should also be a willingness to communicate less formally when issues arise which are of a mutual interest. The agreed procedures to facilitate effective co-operation should ideally be agreed by both parties, documented, and approved by the audit committee.

Mutual Confidence

There needs to be mutual confidence between both groups of auditors. This is based, most importantly, on recognition that internal and external audits are conducted within relevant professional standards. Where internal audit work offers the possibility of direct use by external audit, the external auditor may need to seek specific assurance about the standard of that particular work in order to comply with their professional standards. There also needs to be confidence that any information exchanged is treated professionally and with integrity.

Although internal and external auditors have different and clearly defined roles they do share the same broad purpose of serving the public by helping to ensure the highest standards of regularity and propriety for the use of resources and in promoting efficient, effective and economic administration. Co-ordination among them maximizes the benefits, which can be gained from working together in areas where there is an overlap in the work to be done. A number of benefits are identified below:

Varied strengths increase effectiveness

By the nature of their responsibilities, internal auditors spend a lot of time working for the same company. This gives them a better understanding of the culture and working of the organization. They notice things and come across instances, which the external

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auditor is unable to see during his visits. The external auditors on the other hand have exposure to wider variety of financial issues as they have multiple clients. External auditors may therefore discover and solve issues that internal auditors have not dealt with before.

Increase in efficiency

Co-ordination increases efficiency. When the audit is not properly co-ordinated, external auditors may duplicate work already performed by the internal auditors. This redundancy causes higher audit fees but does not increase the effectiveness of the audit. Similarly, internal auditors may duplicate external auditors' work, which results in wasted internal audit time. Co-ordination increases the probability that the information companies release is accurate. Combined, the synergies realized through improved coordination add value to a company's shareholders.

Better audit coverage

It is expected that elimination of redundant work will leave time and resources for better audit coverage.

Cost reduction

Co-ordination reduces the time and efforts which the external auditor would expend on redundant work thus, reducing the audit fees. In most cases, the savings from co-ordination are greater than the cost incurred by the internal audit function to perform the work on which the external auditors rely.

Better understanding of each other's work

Co-ordination would imply that the auditors communicate and consult with each other their plans and findings. This will lead to clearer understanding of respective audit roles and requirements and a better understanding by each group of auditors.

6. Findings of the Study

Effective co-operation between internal and external audit leads to a range of benefits for both parties, and the clients they serve. Whilst their respective roles are different, co-operation helps both parties achieve their objectives and also helps them provide a better service to the bodies they work with and ultimately to parliament and the public (Fowzia, 2009). Best practice of co-operation is built on approval, commitment, communication and trust. The application of these concepts is fundamental to building effective co-operation and underpins all aspects of internal and external auditor relations.

There are total 27 measurement variables to evaluate the co-operation between internal and external auditors. For effective co-operation between internal and external auditors management and the audit committee have to play an important role. Under the factor co-operation promoted through management and the audit committee there are 4 measurement variables. Professional confidence is also a vital factor for assessing the co-operation between internal and external auditors. Under the factor professional

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confidence there are 4 measurement variables. The external auditor must have reliance about the internal auditor's work. To substantiate this reliance there are 2 measurement variables under the factor reliance on internal audit. Regular discussion between internal and external auditors provides the basis for important co-operation and the means for helping to bring it about. Under the factor co-operation and consultation there are 13 measurement variables. Regular and open communication between internal and external auditors is essential to the achievement of co-operation. There are 4 measurement variables under the factor communication.

Reliability analysis allows the study of the properties of measurement scales and the items that compose the scales. The reliability analysis procedure calculates a number of commonly used measures of scale reliability and also provides information about the relationships between individual items in the scale. Intraclass correlation coefficients can be used to compute inter-rater reliability estimates. Cronbach Co-efficient Alpha model is a model of internal consistency, based on the average inter-item correlation. Existing literature has been used as the basis of the source of measures for the variables. Reliability/ internal consistency of the variables using Cronbach Co-efficient Alpha (Table-1) in case of nationalized banks and foreign banks have been measured which are shown below:

Table-1: Summary of the Reliability Measurement

Dimensions	Number of cases	Number of items	Nationalized Banks α-value	Foreign Banks α-value
Co-operation promoted through management and the audit committee	3	27	.961	.933
Professional Confidence				
Reliance on Internal Audit				
Co-operation and Consultation				
Communication				

The minimally acceptable reliability for primary research should be in the range of .50 to .60 (Nunnally, 1967). For nationalized banks and foreign banks, Co-efficient Alpha values have been computed for five variables which are .961 and .933 respectively. It means commonly used measures of scale are very reliable and the relationships between individual items in the scale are very high.

The following table shows the weight of important factors on the co-operation between internal and external auditors in nationalized banks of Bangladesh:

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Table-2: Co-operation between Internal and External auditor in Nationalized Banks

Factors	Variables	Total score	Average score	Grand Average
Factor-1: Co-operation promoted through management and the audit committee	Do management and the audit committee (where this exists) actively promote effective co-operation between the internal and external audit?	15	5.0	4.25
	Do internal audit attend audit committee meetings?	14	4.67	
	Do external audit attend audit committee meetings?	9	3.0	
	Does the audit committee consider and advise on opportunities for co-operation?	13	4.33	
Factor-2: Professional Confidence	Has an External Quality Assurance review of internal audit been carried out either by an independent third party or by external audit?	9	3.0	3.17
	Has external audit given relevant feedback on the results of the review and how it affects opportunities for co-operation?	9	3.0	
	If the assessment concludes that reliance on internal audit is not possible, has external audit made recommendations for improvement and has an action plan been developed?	9	3.0	
	Has management considered any need to revise the specification for internal audit services in the light of External Quality Assurance?	11	3.67	
Factor-3: Reliance on Internal Audit	Is reliance on internal audit clearly built into the external audit plan?	12	4.0	3.67
	Do external audit discuss the results of their evaluation of individual pieces of internal audit work on which the intended to place reliance?	10	3.33	
Factor-4: Co-operation and Consultation	Do internal and external audit meet on a regular basis to give feedback, discuss progress and resolve problems?	8	2.67	2.77
	Do internal and external audit report to the Audit Committee on the arrangements established for routine liaison, the results of past co-operation, and their plans for future co-operation?	9	3.0	
	Is there a written agreement for co-operation and reliance arrangements between internal and external audit?	6	2.0	
	Have all areas for potential co-operation between internal and external audit been explored?	9	3.0	
	Do internal and external audit co-ordinate the timing of their work effectively in order to maximize co-operation and reliance?	10	3.33	
	Do management or the audit committee discuss audit plans with both sets of auditors?	13	4.33	
	Are there any potential problems acting as a barrier to co-operation between internal and external audit?	7	2.33	
	Has a joint action plan been drawn up to help address these problems?	6	2.0	
	Have external and internal audit considered joint training in each other's methodology?	5	1.67	
	Have external and internal audit considered joint working on specific projects with the objective of ensuring skill's transference between the two sets of auditors?	5	1.67	
	Do internal and external auditors consult and agree on the timing of work in which they have a mutual interest?	4	1.33	
	Have auditors discussed and agreed minimum standards of documentation to be adopted?	11	3.67	
	Have auditors discussed and agreed arrangements for sharing relevant files and working papers?	15	5.0	
	Factor-5: Communication	Is there two-way communication between internal and external auditors on matters of mutual interest and concern at all times?	7	
Have procedures been agreed with management and internal audit for providing copies of internal audit reports to external audit?		11	3.67	
Does external audit discuss its plans with management and internal audit?		9	3.0	
Does external audit communicate its findings to management and internal audit?		12	4.0	

In case of nationalized banks in Bangladesh among the five factors co-operation promoted through management and the audit committee is most important factor. There are 4 measurement variables under this factor. It obtained 4.25 average score point which implies that the influence of management and the audit committee on the co-

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operation between internal and external auditors is very significant. Management and the audit committee contribute frequently to promote the co-operation between internal and external auditors.

The second important factor is reliance on internal audit. It attained 3.67 average score point which illustrates that sometimes the reliance on internal audit is clearly built into the external audit plan and external audit discusses the results of their evaluation of individual pieces of internal audit work on which they intended to place reliance.

The third influential factor on the co-operation between internal and external auditors is communication. There are 4 measurement variables under the factor communication. This factor obtained 3.25 average score point which also demonstrates that the communication level between internal and external auditors is in standard point.

The fourth important factor regarding co-operation between internal and external auditors is professional confidence. There are 4 measurement variables under this factor. This factor scored 3.17 average point which shows that the professional confidence level between internal and external auditors is in average position.

The last and fifth leading factor is co-operation and consultation. There are 13 measurement variables regarding this factor. This factor achieved only 2.77 average score point which indicates that rarely the co-operation and consultation between internal and external auditor happens in nationalized banks in Bangladesh. It means co-operation and consultation between internal and external auditors is in poor level.

The following table shows the weight of important factors on the co-operation between internal and external auditors in foreign banks of Bangladesh:

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Table-3: Co-operation between internal and external auditor in Foreign Banks

Factors	Variables	Total score	Average score	Grand Average
Factor-1: Co-operation promoted through management and the audit committee	Do management and the audit committee (where this exists) actively promote effective co-operation between the internal and external audit?	15	5	3.92
	Do internal audit attend audit committee meetings?	13	4.33	
	Do external audit attend audit committee meetings?	8	2.67	
	Does the audit committee consider and advise on opportunities for co-operation?	11	3.67	
Factor-2: Professional Confidence	Has an External Quality Assurance review of internal audit been carried out either by an independent third party or by external audit?	10	3.33	2.75
	Has external audit given relevant feedback on the results of the review and how it affects opportunities for co-operation?	9	3	
	If the assessment concludes that reliance on internal audit is not possible, has external audit made recommendations for improvement and has an action plan been developed?	5	1.67	
	Has management considered any need to revise the specification for internal audit services in the light of External Quality Assurance?	9	3	
Factor-3: Reliance on Internal Audit	Is reliance on internal audit clearly built into the external audit plan?	10	3.33	3.50
	Do external audit discuss the results of their evaluation of individual pieces of internal audit work on which the intended to place reliance?	11	3.67	
Factor-4: Co-operation and Consultation	Do internal and external audit meet on a regular basis to give feedback, discuss progress and resolve problems?	7	2.33	3.31
	Do internal and external audit report to the Audit Committee on the arrangements established for routine liaison, the results of past co-operation, and their plans for future co-operation?	8	2.67	
	Is there a written agreement for co-operation and reliance arrangements between internal and external audit?	3	1	
	Have all areas for potential co-operation between internal and external audit been explored?	13	4.33	
	Do internal and external audit co-ordinate the timing of their work effectively in order to maximize co-operation and reliance?	12	4	
	Do management or the audit committee discuss audit plans with both sets of auditors?	14	4.67	
	Are there any potential problems acting as a barrier to co-operation between internal and external audit?	6	2	
	Has a joint action plan been drawn up to help address these problems?	9	3	
	Have external and internal audit considered joint training in each other's methodology?	3	1	
	Have external and internal audit considered joint working on specific projects with the objective of ensuring skill's transference between the two sets of auditors?	6	2	
	Do internal and external auditors consult and agree on the timing of work in which they have a mutual interest?	9	3	
	Have auditors discussed and agreed minimum standards of documentation to be adopted?	13	4.33	
	Have auditors discussed and agreed arrangements for sharing relevant files and working papers?	13	4.33	
	Factor-5: Communication	Is there two-way communication between internal and external auditors on matters of mutual interest and concern at all times?	9	
Have procedures been agreed with management and internal audit for providing copies of internal audit reports to external audit?		3	1	
Does external audit discuss its plans with management and internal audit?		10	3.33	
Does external audit communicate its findings to management and internal audit?		15	5	

In case of foreign banks in Bangladesh among the five factors co-operation promoted through management and the audit committee is most vital factor. It obtained 3.92 average score point which implies that the contribution of management and the audit committee on the co-operation between internal and external auditors is very important.

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The next influential factor is reliance on internal audit. It attained 3.50 average score point which illustrates that the reliance on internal audit by external auditor is in intermediary standard level.

The third important factor regarding co-operation between internal and external auditors is co-operation and consultation. This factor scored 3.31 average point which shows that the co-operation and consultation between internal and external auditor is in above average level.

The fourth crucial factor is communication which scored 3.08 average point. It indicates the communication between internal and external auditors is in average level.

The last principal factor is professional confidence. This factor achieved only 2.75 average score point which demonstrates that the professional confidence between internal and external auditors of foreign banks in Bangladesh is in poor level.

From the above individual analysis about the contribution of different factors on co-operation between internal and external auditor in nationalized and foreign banks, some differences have been found which are shown below:

Table-4: Comparative Analysis between Nationalized Banks and Foreign Banks

Factors	Total Score		Average Score	
	Nationalized Banks	Foreign Banks	Nationalized Banks	Foreign Banks
Co-operation promoted through management and the audit committee	51	47	4.25	3.92
Professional Confidence	38	33	3.17	2.75
Reliance on Internal Audit	22	21	3.67	3.50
Co-operation and Consultation	108	116	2.77	3.31
Communication	39	37	3.25	3.08
Total	258	254	17.11	16.56

Co-operation promoted through management and the audit committee is the most vital factor for assessing the co-operation between internal and external auditors for both nationalized and foreign banks. The difference is: nationalized banks scored 0.33 higher than foreign banks. The second important factor in both the cases is reliance on internal audit. The difference is: nationalized banks scored 0.17 higher than foreign banks. Communication factor is third important factor for nationalized banks whereas it is fourth important factor for foreign banks. It obtained 0.17 score higher than foreign banks. The fourth significant factor for nationalized banks is professional confidence whereas it achieved lowest score in case of foreign banks. Professional confidence level for nationalized banks is 3.17 when foreign banks scored only 2.75. Regarding co-operation and consultation foreign banks scored higher than the nationalized banks by 0.54 points. The overall comparative analysis shows that the foreign banks scored higher than nationalized banks regarding one factor which is co-operation and consultation. On the other hand, nationalized banks

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scored higher than foreign banks regarding rest four factors like co-operation promoted through management and the audit committee, reliance on internal audit, communication and professional confidence. The total difference regarding the contribution of diverse factors on assessing the co-operation between internal and external auditors between nationalized banks and foreign banks is only point 0.55. Considering total 27 factors this difference is very insignificant. From the grand average the score of nationalized banks and foreign banks are 3.422 and 3.312 respectively. It means the co-operation between internal and external auditors is in standard level in both types of banks. But the position of nationalized banks is better than foreign banks in Bangladesh.

7. Scope and Limitations of the Study

This study is based on the perceptions of the internal auditors of nationalized banks and foreign banks in Bangladesh. The finding is: the position of nationalized banks is better than foreign banks in Bangladesh regarding co-operation between internal and external auditors. If the study considered the quality of the activities of management and audit committee and internal auditors, external auditors and also the qualifications of members of management and audit committee and internal and external auditors of nationalized and foreign banks, the finding might be different. May be the internal auditors of nationalized banks filled-up the questionnaire with a design to show that the co-operation between internal and external auditors was better or that they did it unappreciatively. On the other hand, the internal auditors of foreign banks filled it up with proper knowledge of the practice followed in their banks. This study lacks consideration of the quality of the activities of management and audit committee, internal auditors and external auditors and also the qualifications of members of management and audit committee, internal and external auditors of nationalized and foreign banks towards justification of their responses. That prospect is kept open for further research.

8. Conclusion

Although internal and external auditors carry out their work with different objectives in mind, many of the processes are similar and it is sensible and good professional practice that they should work together closely. Strong internal control, including an internal audit function and an independent external audit, are part of sound corporate governance. In banks, these are also important for the safety and soundness of operations and can contribute to an efficient and constructive working relationship between bank management and audit committee. Appropriate communication between audit committee and banks' internal and external auditors will improve the effectiveness of audits and supervision. External auditors need as well to carry out their audit economically, efficiently and effectively, and in as timely a way as possible. It specifies that as part of their audit approach, auditors should establish effective co-operation arrangements with internal audit and seek to place maximum reliance on internal audit work whenever possible.

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