

UNIVERSITY OF CAPE COAST

INTERNAL AUDIT INDEPENDENCE IN GHANA EDUCATION SERVICE:  
EVIDENCE FROM VOLTA REGION

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EVIDENCE FROM VOLTA REGION

BY

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## DECLARATION

### Candidate's Declaration

I hereby declare that this dissertation is the result of my own original research work and that no part of it has been presented for another degree in this university or elsewhere.

Candidate's Signature ..... Date: .....

Name: Nickson Cudjoe Eyome Dogbe

### Supervisors' Declaration

I hereby declare that the preparation and presentation of the dissertation were supervised in accordance with the guidelines on supervision of dissertation laid down by the University of Cape Coast.

Supervisor's Signature ..... Date: .....

Name: Dr. Samuel Kwaku Agyei

## ABSTRACT

This study assessed internal auditor independence in Ghana Education Service with evidence from Volta Region. Quantitative research methodology was adopted for the study hence the analyses were quantitative in nature. The study used descriptive survey as its research design and used the census method to select all internal auditors and their supporting staffs numbering 135, who served as sample size for the study. A structured close-ended questionnaire was the main instrument used for data collection. The data collected were analysed using descriptive statistical tools (frequency tables, percentages, mean and its associated standard deviation) as well as inferential statistics (one-way-ANOVA). The study revealed that, giving autonomy to the internal audit function had the greatest influence on internal auditor independence positively ( $\bar{X} = 3.83$ ). Further examination showed that, to a large extent, threats (*self-interest threats and intimidation threats*) positively affect internal auditor independence of mind at GES, Volta Region (overall  $\bar{X} = 3.21$ ). Contrariwise, threats do not affect internal auditor independence in appearance at GES, Volta Region (overall  $\bar{X} = 2.25$ ). Finally, the study revealed that there is no difference in the mean level of the various internal audit threats among males and females and that the means among males and females are equal. The study therefore recommended that, substantial emphasis must be placed on the importance of reporting lines in maintaining the autonomy of internal auditors.

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**DEDICATION**

To my daughter, Sefa Dogbe

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**LIST OF ACRONYMS**

ERM	Enterprise-Wide Risk Management
GSS	Ghana Statistical Service
ICA	Institute of Chartered Accountants - Ghana
IIA	Institute of Internal Auditors
ISA	International Standard on Auditing
SD	Standard Deviation
SPSS	Statistical Package for Social Sciences

## CHAPTER ONE

### INTRODUCTION

#### **Background to the Study**

The concept of internal auditing is contained in the definition of internal auditing as follows: “an independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes (Institute of Internal Auditors, 2013, p. 2).

Further to that, Ege (2014) indicated that the internal audit plays a distinctive role in corporate governance by monitoring risks that pertains to the firm and ensues that all organisational processes are controlled efficiently and effectively. Similarly, Johl, Johl, Subramaniam and Cooper (2013) stressed that, the function of internal audit is crucial in financial reporting. However, irrespective of the integral part of internal audit to the management structure of an organisation, internal auditors who engage in management practices are more likely to have impaired audit independence.

According to the Institute of Internal Auditors (2013), the internal auditor occupies a unique position and is employed by the management but is also expected to review the conduct of management which can create significant tension since the internal auditor’s independence from management is necessary for the auditor to objectively assess the management’s action, but the internal auditor’s dependence on the management for employment is very clear. The Internal Auditing standards interpret “independence” as freedom

from conditions that threaten the ability of the internal audit activity or the chief audit executive to carry out internal audit responsibilities in an unbiased manner. In order to enhance the internal audit independence, internal auditors are not required to actively involve themselves in the daily management activities of the organisation. Their main concern should be risk management.

Kamau, Kariuki and Mutiso (2014) further added to the management influence theory, noting that executive and line management, by utilising the internal audit function for various extended roles, do not always appreciate the need for independence. Kamau *et al.* (2014) also argued that many executives and managers view internal auditors as their workers, and hence views internal auditors' reporting to the audit committee as merely a formality to satisfy corporate governance requirements. Since some managers believe that internal auditors are supposed to work for them, they induce the internal auditors to engage in management functions. It is in this area that the impairment of the internal audit function's independence poses a threat.

The independence of the internal audit function is also affected negatively by the possibility for management to influence the budget of internal audit function. Even so, when senior management becomes too heavily involved in influencing the internal audit planning, this act poses a potential threat to the independence of the internal audit function (Yee, Sujana, James, & Leung, 2017). Consequently, it is recommended that, internal auditors should know the effects of threats on their independence, and should abide by the rules of professional behaviour, and exercise the suitable defensive procedures against these threats (Nawaiseh & Alnawaiseh, 2015).

The present study therefore seeks to assess internal auditor independence in Ghana Education Service with evidence from Volta Region.

### **Statement of the Problem**

The institute of internal auditors has promoted the internal audit function as an independent function that provides value-added assurance and consulting services. Through this extended role, the function has been promoted as the cornerstone upon which effective corporate governance is built (Institute of Internal Auditors, 2013). This view has been supported by academic and practitioner research. Mutave (2014) in his research on the history and evolution of the internal audit function indicated that, over time, there has been a massive shift in focus to one that promotes and supports effective organisational governance. This has been supported by Christopher (2015) who noted that, in today's business environment, the internal audit function has become a major support function for management, the audit committee, the board of directors, and other stakeholders.

This expanded role essentially would involve the provision of additional services, which are initiated by the board (including the audit committee) and management as a means of ensuring that accountability requirements are met. This raises the issues of credibility and integrity, given the close relationship between these two parties. D'Onza, Selim, Melville and Allegrini (2015) touched on the importance of independence by suggesting that, as the responsibilities of internal auditors grow, so does the demand for greater accountability, independence and objectivity. They suggest that the broadened responsibilities of the internal audit function within the

environment of a changing business world, coupled with increasing economic competition and globalisation, are creating pressure on the internal audit function, which can jeopardise its independence.

They emphasise this by stating: Independence and objectivity are to the profession of internal auditing what the Hippocratic Oath is to the practice of medicine. They go on to define independence as: freedom from material conflicts of interest that threaten objectivity. In other words, it is a state where threats to objectivity are managed to the extent that the risks of ineffective internal audit services are acceptably controlled (D'Onza *et al.*, 2015).

An internal auditor faces many threats that may affect his independence. If his independence is affected, he becomes unable to issue a fair report showing the extent of the financial statements' justice which was audited in accordance with the requirements of related international auditing standards. His career will be affected, the acceptance to deal with him in the future will be decreased, and users will not trust his audited financial statements (Nawaiseh & Alnawaiseh, 2015). The tension resulting from the pressure to provide value-added services while maintaining independence prompts our research objectives, which are to: assess the underlying factors that influence internal auditor independence; examine whether threats affect internal auditor independence of mind; and establish whether threats affect internal auditor independence in appearance.

To this end, this study seeks to assess internal auditor independence in Ghana Education Service with evidence from Volta Region. The study is motivated by the fact that it highlights the role of threats in weakening the independence of the internal auditor in Ghana Education Service.



### **Research Objectives**

The overriding objective of the study is to assess internal auditor independence in Ghana Education Service with evidence from Volta Region. The following specific objectives were formulated to give the study direction: to:

1. assess the underlying factors that influence internal auditor independence at GES, Volta Region;
2. examine whether threats affect internal auditor independence of mind at GES, Volta Region;
3. establish whether threats affect internal auditor independence in appearance at GES, Volta Region;
4. assess the challenges of internal audit at GES, Volta Region, and
5. assess whether significant differences exist in the various auditor threats, based on gender.

### **Research Questions**

Based on the stated objectives, the following research questions were formulated:

1. What are the underlying factors that influence internal auditor independence at GES, Volta Region?
2. Do threats affect internal auditor independence of mind at GES, Volta Region?
3. Do threats affect internal auditor independence in appearance at GES, Volta Region?
4. What are the challenges of internal audit at GES, Volta Region?

5. Do significant difference exist in the various auditor threats, based on gender?

### **Significance of the Study**

The study seeks to assess internal auditor independence in Ghana Education Service with evidence from Volta Region. Studying internal auditor independence in Ghana Education Service with evidence from Volta Region is crucial because it would present: the underlying factors that influence internal auditor independence; the influence of threats on internal auditor independence of mind; the influence of threats on internal auditor independence in appearance; and the challenges of internal audit at GES, Volta Region. Hence, the result of this research project will provide relevant information to policy makers in Ghana Education Services and local development planners working on the development of the internal audit function. Furthermore, the study will provide additional information on the internal audit independence for interested researchers and business consulting firms.

### **Delimitations**

The present study seeks to assess internal auditor independence in Ghana Education Service with evidence from Volta Region. In terms of study organisation, the study has been limited to Ghana Education Service with evidence from the Volta Region of Ghana. Variables included in the study involved: the factors that influence auditor independence, threats, and challenges of internal audit.

## **Organisation of the Study**

This study was organised into five main chapters. Chapter One presented the introduction which comprised background of the study, statement of the problem, research objectives, research questions, significance of the study, delimitations, and organisation of the study. Chapter Two reviewed various literatures relevant to this research project and Chapter Three described the research methods adopted for the study. Chapter Four captured the results and discussion whiles Chapter Five finalises the report with the summary, conclusions and recommendations.

## CHAPTER TWO

### LITERATURE REVIEW

#### **Introduction**

This chapter covered theoretical review, empirical review, and conceptual framework. The theoretical review explained the concept of internal auditing and internal auditor, the internal auditor's responsibility and role, internal audit as mechanisms, the independence of the internal auditor, the institutional theory, institutional theory and internal auditing, and the new institutional theory. Subsequently, empirical review documented the results of other studies that are closely related to the research topic as well as identifying the similarities, contradictions, and gap in such studies. Finally, the conceptual framework showed how the researcher explored the research topic. It dwells on time tested theories that embody the findings of numerous investigations on how the phenomena occur.

#### **Theoretical Review**

As mentioned earlier, the theoretical review explains the concept of internal auditing and internal auditor, the internal auditor's responsibility and role, internal audit as mechanisms, the independence of the internal auditor, challenges of internal audit as well as agency and institutional theory.

#### **Concept of internal auditing and internal auditor**

The concept of internal auditing is contained in the definition of internal auditing as follows: "an independent, objective assurance and consulting activity designed to add value and improve an organisation's

operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes (Institute of Internal Auditors, 2013, p. 2; Tsegaye, 2017).

Providing the difference between independence and objectivity, Tsegaye (2017) further explained that, independence is the freedom from conditions that threaten objectivity or the appearance of objectivity. According to the author, such threats to objectivity must be managed at the individual auditor. Objectivity, on the other hand, is an unbiased mental attitude that allows internal auditors to perform engagements in such a manner that they have an honest belief in their work product and that no significant quality compromises are made. Objectivity requires internal auditors not to subordinate their judgment on audit matters to that of others.

According to Zaman and Sarens (2013), an internal auditor is a forward looking individual, who knows and understands business systems and ensures the management that they operate rightly and achieve firm goals. Internal auditors play key role in the world of business. Internal auditors review organisational goals, processes and operations and provide professional advice to the management.

### **The internal auditor's responsibility and role**

According to the Institute of Internal Auditors (2013), the primary aim of internal auditing is to assist management of firms to achieve the corporate goals providing the assurance that management has implemented a satisfactory internal control system to prevent risks. Consequently, internal auditing

provides internal consulting services to all levels of the organisation in terms of training, advices, facilitation and counsels.

The Institute of Internal Auditors (2013) stressed on the section related to objectives in respect of internal auditing responsibilities as “The objective of internal auditing is to assist all members of management in the effective discharge of their responsibilities by furnishing them with analyses, appraisals, recommendations and pertinent comments concerning the activities reviewed. The internal auditor is concerned with any phase of business activity where he can be of service to management. This involves going beyond accounting and financial records to obtain a full understanding of the operations under review.

The Institute of Internal Auditing (2013) explained that internal auditing can be categorised into internal control, corporate governance and risk management. More so, the Institute of Internal Auditing (2013) stressed that internal auditors play a key role in risk management and providing consultants and assurance services to the executives. In the first place, the Institute maintained that the role of Internal Auditing in Enterprise-Wide Risk Management (ERM) is a direction to Internal Auditors to play the role in the enterprise risk management procedure. Again, concerning consulting services, the Institute of Internal Auditing reported that four basic activities for internal auditor to be accountable are coordinating Enterprise-Wide Risk Management activities, maintaining and developing the Enterprise-Wide Risk Management framework, facilitating the identification and evaluation of risks, and for the board support developing of risk management strategy.

## **Internal audit as mechanisms**

### ***Internal audit as a risk management mechanism***

Internal auditors can add value to an entity by giving assurance that its exposures to risk are properly managed and understood (Thompson, 2013). Internal audit need to play a vital role in monitoring the risk profile of a company (D'Onza *et al.*, 2015). Tahir (2015) indicates that development of a risk based culture is required in order to build a strong organisational commitment for risk management, resulting into the development of an integrated risk management framework within a company. Furthermore, Internal Audit is helpful to business entities in identifying and evaluating risks and putting the profession at the front line of risk management (Chambers & Odar, 2015).

### ***The internal audit as a control mechanism***

The management and directors of a company adopt the process of internal control with the assurance to achieve the company's objectives in respect to operations, financial reporting and compliance with the regulations (Hung, Ha, & Binh, 2017). The International Standard on Auditing (ISA) shows that the control environment can be strengthened by using effective internal audit function by: a) review of the internal control structure of a firm on behalf of the management; and b) monitoring different operations regarding the information system and control procedures (Quansah, 2015)

### *Internal audit as an internal governance mechanism*

An independent board chair, independent directors on the board, internal audit, external audit and effective audit committee are different corporate governance mechanisms used to monitor behaviour of the management (Al-Matari, Al-Swidi, & Fadzil, 2014; Kumar & Singh, 2013). The complex interactions within these governance mechanisms are like a “corporate governance mosaic” (Cohen & Simnett, 2014, p. 71) but problems between independent and executive directors due to asymmetry information shows internal audit more likely as a complementary mechanism. This is supported by determining evidences from the researchers examining the relationship between audit committees and internal audit (Alzeban & Sawan, 2015).

This is in accordance with the Institute of Internal Auditors’ view about internal auditing; which helps organizations to improve and evaluate governance processes (Institute of Internal Auditors, 2013). So, positive relation between the internal audit function and a stronger audit committee can be expected because of their closely intertwined goals (Alzeban & Sawan, 2015). An effective audit committee can strengthen the internal audit function position (Denziana, 2015; Fauzi, Basyith, & Foo, 2017) whereas a powerful internal audit function can result in enhancing the audit committee’s effectiveness (Barac & Williams, 2016).

### **The independence of internal auditor**

According to the Institute of Internal Auditors (2013), the internal auditor occupies a unique position and is employed by the management but is



also expected to review the conduct of management which can create significant tension since the internal auditor's independence from management is necessary for the internal auditor to objectively assess the management's action, but the internal auditor's dependence on the management for employment is very clear. The Internal Auditing standards interpret "independence" as freedom from conditions that threaten the ability of the internal audit activity or the chief audit executive to carry out internal audit responsibilities in an unbiased manner. In order to enhance the internal audit independence, internal auditors are not required to actively involve themselves in the daily management activities of the organisation. Their main concern should be risk management.

Kamau *et al.* (2014) further added to the management influence theory, noting that executive and line management, by utilising the internal audit function for various extended roles, do not always appreciate the need for independence. Kamau *et al.* (2014) also argued that many executives and managers view internal auditors as their workers, and hence views internal auditors' reporting to the audit committee as merely a formality to satisfy corporate governance requirements. Since some managers believe that internal auditors are supposed to work for them, they induce the internal auditors to engage in management functions. It is in this area that the impairment of the internal audit function's independence poses a threat.

Regoliosi and d'Eri (2014) expressed the dilemma through an argument that the internal audit department is required to add value to management operations, while at the same time not become its servant, and dependably report on the status to the board or some other equivalent

governing body. The independence of the internal audit function is also affected negatively by the possibility for management to influence the budget of internal audit function. Even so, when senior management becomes too heavily involved in influencing the internal audit planning, this act poses a potential threat to the independence of the internal audit function (Lenz & Hahn, 2015). Internal auditors who engage in management practices are more likely to have impaired audit independence.

### **Institutional theory**

Institutional theories of organisations offer a rich, complex view of organisations (Okike, Adegbite, Nakpodia, & Adegbite, 2015) and can be used to study the practice of internal audit functions and consequently, internal auditor independence. The practice is a part of organisational phenomena which could be explained by new institutional theory. This is indicated by prior studies which suggest that new institutional theory is appropriate for explaining the practice of internal audit functions, both in developing countries (Abuazza, Mihret, James, & Best, 2015; Alzeban & Gwilliam, 2014; Utami, 2016) and developed countries (Arena, 2013; Arena & Jeppesen, 2016).

In a similar vein, some authors (Chariri, 2017; Mennicken & Power, 2013) have mentioned that internal audit functions are socially constructed and this is consistent with the new institutional theory that holds a view that institutional environment is socially constructed. Therefore, it could be said that new institutional theory is an appropriate theory to be used by this study.

### **Institutional theory and internal auditing**

A number of organisational studies have indicated that the institutional theory is useful for understanding behaviours in organisations (Alleyne, Hudaib, & Pike, 2013; Baker, Bédard, & Prat dit Hauret, 2014; Griffith, Hammersley, & Kadous, 2015; Heras-Saizarbitoria, Dogui, & Boiral, 2013; Lenz & Hahn, 2015). These studies were mostly conducted in public and not-for-profit organisations, such as municipal governments, public agencies, schools and hospitals (Al-Hazmi, 2013). The phenomenon of internal auditing has attracted the interest of a few scholars who have studied it using institutional theory. For example, the studies on the design of the internal audit department and the effectiveness of internal audit (Arena, 2013; Arena & Jeppesen, 2016). However, research on the internal auditor in public organisations in Ghana is difficult to find.

Internal audit functions are parts of institutional phenomena which are socially constructed by individuals from within and outside organisations. Thus, the institutional theory is relevant to understanding the dynamic of the practice of internal audit functions, particularly internal auditor independence. Such constructs indicate diverse aspects of behaviour and institutional environments which affect the practice of internal audit functions. Fauzi *et al.* (2017) contends that: audit is a social phenomenon. It has no purpose or value except in its practical usefulness. It is wholly utilitarian. The function has evolved in response to a perceived need of individuals or groups in society who seek information or reassurance about the conduct or performance of others in which they have an acknowledged or legitimate interest.

Moreover, Denziana (2015) in Chariri (2017, p. 109) stated that: “accounting and auditing are institutional phenomena. So it is reasonable to assume that they derive many of their properties from the nature of firms as economic institutions. Progress in understanding accounting and auditing, at all levels of abstraction from board conception of their economic function through to understanding of the reasons for specific accounting and auditing techniques, seems likely to require a theory of the firm that views institutional phenomena as its domain...”. These arguments indicate that internal audit functions and internal audit independence should be understood within a framework of institutional theory since it is an institutional practice.

According to Utami (2016), a social institution is regularity in social behaviour which is approved by all of society’s members, determines behaviour in specific recurrent situations, and is either self-regulated or regulated by external authorities. Okike *et al.* (2015) argues that organisations could get support from the community and finally gain legitimacy if their existence is based on expectations, norms and beliefs which are judged by society’s members. Further, organisations’ legitimacy can be obtained when organisations’ activities are in tune with norms, rules, and values of their respective institutional environment (Abuazza *et al.*, 2015; Hung *et al.*, 2017; Quansah, 2015). In this case, Ghana Education Service in Ghana attempts to legitimate its activities through the existence of an internal audit unit and its functions.

The existence can also play a role as a symbol of an organisation’s commitment, particularly by top management, to external values, such as stakeholders’ expectation regarding the effectiveness of a company’s controls

as a means to obtain the goals of organisation (Yee, Sujan, James, & Leung, 2017). The arguments above indicate that understanding the organisational contexts within which internal audit functions are operated will lead to a more fruitful study. This can be gained by understanding the interactions of players in an organisation and developing or taking norms, rules, and beliefs to shape the organisation.

As mentioned by Mohammad (2015, p. 15): “social construction perspective provides us with a better understanding of the factors mediating a manager’s choices. This approach recognizes that individual, institutional and societal relations influence, constrain and even define one’s choices, both at point in time and over time. Furthermore, a social construction perspective suggests that some practices are not consciously chosen, rather they are so highly institutionalized that they are taken for granted.

### **New institutional theory**

New institutional theory was initiated during the mid-1970s. Then, Suddaby, Seidl and Lê (2013), and Senge (2013) developed and elaborated it further. A foundation belief of the new institutional theory is that the characteristics of the environment in which the organisation operates determine the structure and behaviour of the organisation (Meyer & Höllerer, 2014; Suddaby *et al.*, 2013). The organisational practices are influenced by the institutional environment, such as social, political and economic, and also internal institutions including the objectives, structure and culture of the organisation. Obtaining support and legitimacy from the institutional

environment are the aims of organisation in adapting with the environment (Meyer & Höllerer, 2014; Senge, 2013).

Accordingly, organisations are pressured to change their routines by external factors, such as the given sociocultural norms, relationships among organisations and political pressures by government and other authoritative bodies (Börner & Verstegen, 2013; Cornelissen, Durand, Fiss, Lammers, & Vaara, 2015; Fredriksson, Pallas, & Wehmeier, 2013). This condition indicates that “organisations are embedded in larger systems of relations” which is called the “societal sector” (Scott, 2013, p. 120). This relates to the group of organisations that provide similar products, services or functions, as well as its major owners, customers, suppliers, competitors, and regulators (Scott, 2013). The system of relations is organised at a broad level, and organisations are related in non-local and vertical hierarchies (Fredriksson *et al.*, 2013).

As a result, the features and structures of organisation are significantly shaped by how the societal sector is structured. This happens particularly when organisations are controlled by the structure of decision making, technical or institutional processes, the nature of internlevel controls and the numbers of levels to which organisations have developed (Scott, 2013). The new institutional theory claims that organisations are designed to be obedient to procedures and practices, which are perceived as socially accepted rationalisations, in terms of how to structure the organisation operations (Meyer & Höllerer, 2014).

Therefore, the concept of rationality develops and changes (Baker *et al.*, 2014). New institutional theory deems that organisations adopt rational

rules and routines to ensure that actions of organisations are legitimate not only for reasons of efficiency (Cornelissen *et al.*, 2015; Meyer & Höllerer, 2014). Börner and Verstegen (2013) believe this adoption is to sustain the trust of external stakeholders in the organisations' operations. In similar vein, Scott (2013) argues that organisations will ensure that the external constituents are able to see the institutionalised rules and routines. For instance, establishing the internal audit department in a company to gain legitimacy and sustain its image in shareholders' eyes (Adam, 2014).

Another example is that the professional certifications gained by the internal auditors legitimate their functions' performance (Al-Matari *et al.*, 2014). Rationally, in harmony with a social expectation is a means to improve a company's ability in obtaining continuing resources, lessening the likelihood that its behaviours are doubted and increasing survival prospects (Chambers *et al.*, 2015; Tahir, 2015; Thompson, 2013; Zaman & Sarens, 2013). The arguments above indicate that macro aspects are the focus of new institutional theory, particularly the understanding of external pressures to change. The environment creates "organisations in their own image" (Mutave, 2014, p. 25).

### **Empirical Review**

The empirical review documents the results of other studies that are closely related to the research topic as well as identifying the similarities, contradictions, and gap in such studies.

### **Internal threats (mind and appearance) to internal auditor independence**

Independence is the base of the auditing process because it helps the auditor to express his impartial opinion regarding the financial data in his report, without any influence of the threats on his judgment. Independence (of mind and appearance) means that the internal auditor should do his duty with honesty, faithfulness and impartialities (Mohammed, 2015; Nawaiseh & Alnawaiseh, 2015) in the planning, testing of data, evaluating the results, and preparing his report (Arena & Jeppesen, 2016). It means that the internal auditor is committed towards all users of his report (Chariri, 2017). Independence and neutrality of the internal auditor are the important factors that cause the reliability and the credibility of the financial statement (Ege, 2014; Kamau *et al.*, 2014).

The internal auditor's independence also affects the application of auditing standards, the quality controlling, the management pressure, providing non-audit services (Adam, 2014; Johl *et al.*, 2013; Yee *et al.*, 2017), using the unemployed power, collecting new data for the client activities (Christopher, 2015), and in discovering the financial travesties early. Before these threats affect the independence, the internal auditor should take the suitable defending procedures (Tsegaye, 2017). The internal auditor should not do any service without client order, and if he agrees to do that, he should choose a qualified assistant to achieve that (Nawaiseh & Alnawaiseh, 2015).

The independence of the internal auditor increases by his speciality, his experience, and the efficiency of internal auditing (Alzeban & Sawan, 2015; Cohen & Simnett, 2014; Denziana, 2015). Independence of mind means that the internal auditor has to express his opinion on the financial statements



without being influenced by any threat from any source, and independence in appearance means the ability of the internal auditor to avoid circumstances or facts which, if known by a third party, they would change their opinion in the integrity, objectivity and impartiality of the internal auditor (Barac & Williams, 2016; Fauzi *et al.*, 2017; Thunaibat, 2015). The threats affecting the internal auditor independence may be classified five categories: self-interest threats, self-review threats, advocacy threats, familiarity or intimacy threats, and intimidation threats.

### *Self-interest threats*

These threats occur when the internal auditor has material or non-material interests with the client. These threats have effect on the internal auditor's independence. They include the benefits of his family with the client, the dependence on fees from only one client, the anxiety of losing the client, lending loans or receiving loans from the client, and conditional fees (Nawaiseh & Alnawaiseh, 2015; Thunaibat, 2015). The internal auditor should balance the benefits and threats when he provides non-auditing services to a client (Regoliosi & d'Eri, 2014). The fees volume is the largest threats to the auditor's independence. The new auditor in his beginning work agrees to receive low fees, and then he starts to increase them. In 2001, the Association of Jordanian Auditors specified low fees for the auditing process, but it did not track the applying of that (Lenz & Hahn, 2015). This gives the auditor the opportunity to determine his remuneration (Okike *et al.*, 2015).

Management is responsible for the preparation of financial reports, any misstatements or failure shows effect on the dignity of the auditor from the

users of financial statements, and they doubt his ability to discover fraud management. But when there is a strong institutional control, the auditor will reduce the impact of conflicts of interest that affects his independence (Abuazza, 2015; Nawaiseh & Alnawaiseh, 2015). If there are no auditing committees which are responsible for the appointment of the auditor or have a weak role, this will increase the effects of threats on the auditor's independence (Chariri, 2017; Mennicken & Power, 2013).

Legislation is a key element in any society because it prevents members from encroaching justice, which affects negatively the independence of the auditor (Alleyne *et al.*, 2013; Griffith *et al.*, 2015). But this legislation may be exaggerative and may lead to discontent. This is experienced by the laws in the Ghanaian environment, such as in determining the auditor's fees and does not fit with the nature of the responsibilities arising from it. This has negative effects on independence (Heras-Saizarbitoria *et al.*, 2013).

### ***Self-review threats***

These threats arise when the auditor accepts to audit tasks that he contributed in achieving and a previous opinion was issued on them. They include also that the auditor or his assistant become a worker at the company of the client, and in a position that helps him to influence the audit process significantly, or he or his assistant prepare a basic data which is used in preparing the financial statements or in the auditing function (Baker *et al.*, 2014).

### **Advocacy threats**

These threats arise when the auditor supports the client in his practices and in his views, or promotes his shares or defend him in court cases, or intervene to support the client position in any facing with others (Nawaiseh & Alnawaiseh, 2015).

### **Familiarity or intimacy threats**

An auditor may work with client for a long time, and this assists in increasing the auditor's knowledge about the client's activities. Though this may strengthen the relationship between them, it could lead to nepotism, favouritism, and competition among auditing firms (Mohammad, 2015). Consequently, the length period of service affects the independence of the auditor and changing him could raise cost and reduce the auditor's experience (Titus, Muturl, & Kabiru, 2014).

### **Intimidation threats**

The client may threaten the auditor with cancelling the contract between them in order to reduce his fees; this may reduce the objectivity of the auditor (Nasution, 2013). To reduce such threats, auditing committees should appoint the auditor and determine his fees (Fuenfschilling & Truffer, 2014; Meyer & Höllerer, 2014; Nawaiseh & Alnawaiseh, 2015).

### **Challenges of internal audit**

The internal audit should have an independent role and this is a long term confront for the internal auditors. Internal auditors' profession has

received a new awareness due to the rise of corporate governance. Internal auditors should not subordinate their decision during an audit to management but they cooperate with them and accept boards of director's judgment about management. The internal audit should be an objective task and should not be compromise sometimes in the reporting line, where they required to report and review the operational areas (Börner & Versteegen, 2013).

Internal auditors require reinforcing their relationship with the board of directors and with audit committee. Internal auditors providing assurance should be the best achievement of objectives as well as independent, that is, in terms of internal control, corporate governance and risk management (Cornelissen *et al.*, 2015; Fredriksson *et al.*, 2013).

### **Most recent closely related studies and research gap**

In Ghana, Quansah (2015) looked at internal audit practice and corporate governance at Ghana Post Company Limited in Ashanti Region. Her study, sought to ascertain the practices of internal audit and corporate governance at Ghana Post Company Limited, with specific attention to identifying the Internal Audit procedures; assess the corporate governance framework; assess the role of internal audit practice on good corporate governance; and examine the challenges of internal audit and corporate governance practices in Ghana Post Company Limited in Ashanti Region.

Adopting the purposive sampling technique, a sample size of five (5) respondents comprising, the Regional Head, the Regional Internal Control Manager, Regional Finance Manager, Head Postmaster and Kumasi District Manager of Ghana Post Company Limited, Ashanti Region was chosen; using

interview guide as the main instrument for the collection of data. The findings of the study revealed that the corporate governance framework of Ghana Post serves as the source of the roles and powers of the Board that strengthens accountability mechanism and achievement of company goals; with the Board undertaking a formal and rigorous annual evaluation of its own performance and that of its committees (Quansah, 2015).

Again, the independence of Internal Auditors in Ghana Post are highly compromised since most of the time they are considered as employees of management, and hence the views of Internal Auditors' reporting to the Board as merely a formality to satisfy corporate governance requirements. Also, the challenges encountered by internal audit of Ghana Post have made the department unable to achieve its target thereby exposing the company to a lot of risk as evidenced in the high level of embezzlement that the company has been experiencing in recent times. Also, the non-compliance of internal controls and the flaw in risk management by the board could not be over emphasised (Quansah, 2015).

The researcher recommended that, the board and the entire management should recognise the important role internal audit play and if need be, support them with enough resources to enable them execute their mandate. It was also recommended that, there should be strict adherence to the several independence guidelines of the Internal Audit to keep in mind when considering reporting lines for internal audit. Further, that the board/audit committee should be given the final authority to review and approve the annual audit plan and all major changes to the plan (Quansah, 2015).

In another study, George, Theofanis and Konstantinos (2015) looked at the factors associated with internal audit effectiveness with evidence from Greece. Specifically, the study investigated the specific factors associated with internal audit effectiveness in the Greek business environment. Empirical evidence was collected by means of a mailed survey. Factor Analysis and regression analysis are used in order to illustrate the gathered information. The findings indicate that the main factors affecting internal audit effectiveness are: (1) quality of internal audit, (2) competence of internal audit team, (3) independence of internal audit and (4) management support. The results also revealed that independence of internal audit is the foundation of internal audit effectiveness, as it was the most crucial factor in their model. Finally, the study concluded that, internal audit was of major importance for Greek business.

In the United States, Rose, Rose and Norman (2013) examined internal audit reporting lines, fraud risk decomposition, and assessment of fraud risk. The main purpose of their research was to examine the effects of internal audit reporting lines on fraud risk assessments made by internal auditors when the level of fraud risk varies. According to them, significant emphasis has been placed on the importance of reporting lines in maintaining the autonomy of internal auditors, but the perceived benefits of requiring internal audit to report directly to the audit committee have not been validated or systematically investigated.

Results of an experiment involving 172 experienced internal auditors and additional survey findings indicated that internal auditors perceive more personal threats when they report high levels of risk directly to the audit

committee, relative to management. Perceived threats lead internal auditors to reduce assessed levels of fraud risk when reporting to the audit committee relative to when reporting to management. This finding runs counter to the anticipated benefits of requirements that the internal audit function report directly to the audit committee and it revealed potential conflicts of interest and independence threats created by the audit committee itself (Rose *et al.*, 2013).

The researchers also investigated the effects of fraud risk decomposition on risk assessments made by internal auditors. They found that fraud risk assessment decomposition does not have the same effects on internal auditors as it has on external auditors, and the effects of decomposition do not align with the expected benefits of decomposition (Rose *et al.*, 2013).

In particular, Nawaiseh and Alnawaiseh (2015) assessed the effect of threats on auditor's independence in Jordan. Descriptive statistics measurements and analytical statistics (Paired samples test and one Way ANOVA test) were used to analyse the responses of 65 respondents from Jordanian auditors, and to test the hypotheses of the study. They represented 37 % of auditors who registered in 189 Auditing firms in Jordan.

The researchers found that threats (Self-interest threats, Self-review threats, Advocacy threats, Familiarity or intimacy threats, and Intimidation threats) affected the auditor's independence of mind and appearance, and the variables of speciality and experience did not have an effect in the auditor's awareness of the importance of the effects of threats on his independence. The study recommended that, auditors should know the effects of threats on their

independence, and should abide by the rules of professional behaviour, and exercise the suitable defensive procedures against these threats (Nawaiseh & Alnawaiseh, 2015).

The present study is drawn from the findings and recommendations of Nawaiseh and Alnawaiseh (2015) in the sense that the researcher would want to test whether the situation is the same in Ghana, a different geographical jurisdiction with auditors and management staffs who have different beliefs, perceptions, and attitudes towards the audit profession. More so, much attention has not been devoted to the effect of threats (mind and appearance) on auditor independence particularly in Sub-Saharan Africa hence the gap in literature. This research project therefore intends to narrow the gap in literature by assessing internal auditor independence in Ghana Education Service using evidence from Volta Region, Ghana with emphasis on how internal threats affect auditor independence. The study is motivated by the fact that it highlights the role of threats in weakening the independence of the auditor in Ghana Education Service.

### **Conceptual Framework**

As mentioned earlier, the conceptual framework shows how the researcher intends to explore the research topic under study. Figure 1, therefore, illustrates the relationship between internal threats and auditor independence, where internal threats is seen as independent variable and auditor independence as a dependent variable. Internal threats are measured self-interest threats, self-review threats, advocacy threats, familiarity or intimacy threats, and intimidation threats; whilst auditor independence of mind



and auditor independence of appearance are used to measure auditor independence. This conceptual framework is based on the detailed review of literature in the areas of internal threats and auditor independence (Christopher, 2015; Nawaiseh & Alnawaiseh, 2015).

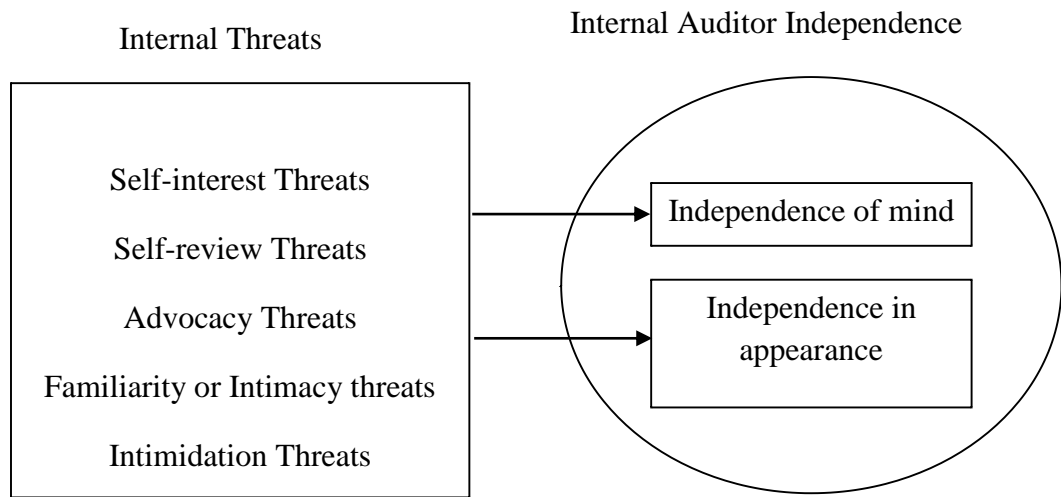


Figure 1: Conceptual framework

Source: Author's construct (Dogbe, 2018)

## CHAPTER THREE

### RESEARCH METHODS

#### **Introduction**

This chapter presented the research approach, the research design, study organisation, population of the study, sample size and the sampling procedure, data collection procedures, validity and reliability of research instrument, data analysis procedure, and ethical issues. It is important to follow these academic research procedures to ensure that it becomes replicable, easy to understand and follow and therefore can be compared to any other research work. According to Pallant (2007), for any academic work to be comparable to any other, it must follow those procedures.

#### **Research Approach**

The study adopted the quantitative research approach. Among the many advantages of quantitative research approach is its ability to enhance speed of conducting a research. Further, it offers a broader coverage of a series of events where statistics are combined from a larger sample (Amarantunga & Baldry, 2002). In addition, quantitative approach enhances the use of statistical data analysis methods, thus, making it easier to generalise the findings from the study. In addition, quantitative approaches take the guesswork to a more concrete conclusion. This is because the results are usually based on quantitative measures rather than mere interpretation and therefore enables future application and comparison with other works.

It should however be noted that, this approach to research lacks flexibility and, thus, makes it very challenging to apply same in assessing or

gauging human behaviour (Crotty, 1998). According to Boohene (2006), the choice of research approach should be based on the researcher's discretion, depending on the nature of a particular study. Therefore, given the purpose and nature of this study where most of the analyses are quantitative in nature, quantitative research approach was deemed the most appropriate and therefore adopted.

### **Research Design**

The descriptive study design is adopted for this study. The descriptive research design is selected mainly because it comprises a cross-sectional design in relation to which data is collected predominantly by questionnaire or by structured interview (Bryman & Bell, 2007). It also provides evidence concerning an existing situation or current conditions; hence surveys provide a more accurate picture of events and seek to explain people's perception and behaviour on the basis of data gathered at a point in time. In addition, it has the advantage of producing good responses from a wide range of people in a highly economically way and also it involves accurate and objective collection of data to describe an existing phenomenon (Nwandinigwe, 2005).

### **Study Organisation**

The study organisation for this dissertation is Ghana Education Service (GES). GES was established as part of the Public Service of Ghana in 1974 by NRCDC 247 and subsequently amended by NRCDC 252, 357 and SMCD 63. The GES is governed by a fifteen-member council. The Vision of Ghana Education Service is to create an enabling environment in all educational

institutions and management positions that will sustain effective teaching and learning in school and promote management efficiency within the Service. The GES is charged with the responsibility of implementing pre-tertiary education policies of government. This is to ensure that all Ghanaian children of school-going age are provided with quality formal education and training (Ministry of Education, 2018).

The Ghana Education Service is responsible for the implementation of approved national policies and programmes relating to pre-tertiary education. Its mandate is as follows: To provide and oversee basic education Senior Secondary Education, Technical Education and Special Education; To register, supervise and inspect private pre-tertiary educational institutions; To submit to the Minister, recommendations for educational policies and programmes; To promote the efficiency and full development of talents among its members; To register teachers and keep an up-to-date register of all teachers in the public system; To carry out such other functions as are incidental to the attainment of the functions specified above; and To maintain professional standards and the conduct of its personnel (Ministry of Education, 2018).

### **Population of the Study**

A population is made up of all the units of the group that the research emphasizes on. Malhotra (1996) opines that the members or units of the group should possess material facts relevant to the study and the researcher. According to Rubin and Babbie (2001), target population is “the theoretically specified aggregation of study elements”. All internal auditors and their supporting staffs of Ghana Education Service in all 25 districts in Volta

Region, numbering 135 constituted the target population for this study. Data on internal audit staff was sourced from the regional directorate of Ghana Education Service in Ho, Volta Region.

### **Sampling Procedure and Sample Size**

According to Evans, Hastings and Peacock (2008), sample size is the number of observations in a sample. It is commonly denoted by  $n$  or  $N$ . Due to the small size of the population, the census method was used to select all 135 staffs that formed the sample size for the study.

### **Data Collection Procedures**

A self-administered questionnaire process was used to collect data for the study. The questionnaire was designed based on literature from past studies (Christopher, 2015; Nawaiseh & Alnawaiseh, 2015). The questionnaire was designed in a way so as to provide specific responses to answer the research questions formulated in Chapter One of this research project. The questionnaire consists of 22 items which were divided into five sections: 'Section A' collected the demographic characteristics (eight items); 'Section B' focuses on the underlying factors that influence auditor independence (four items), 'Section C' captures the influence of threats on auditor independence of mind (five items), 'Section D' looks at the influence of threats on auditor independence in appearance (two items); and lastly, 'Section E' focuses on the challenges of internal auditors at GES, Volta Region (three items).

Statements that make up Sections B to E on the questionnaire are measured on a five-point likert scale with Score '1' indicating '*Least*

*Agreement* and Score '5' indicating '*Strong Agreement*'. It is worthy of mentioning that, all 135 members of the target population responded to the study, after several follow-ups made by the researcher, hence a return rate of 100%.

### **Validity and Reliability of Research Instrument**

Validity and reliability of a study are two key elements in ensuring that the study is valid and scientific. A pilot study is done to test validity while a test retest technique is carried out to test the reliability of the study.

### **Validity of Research Instruments**

A pilot study to establish the instrument's validity was carried out on 25 respondents in each of the districts in Volta Region with an aim to improve the use of the primary data. All 25 questionnaires issued to the respondents were recovered. This sample size conformed to Saunders, Lewis and Thornhill's (2007) minimum criteria of 10 for pilot studies by students. This improved the validity, which made the quality of research trustworthy and scientific.

As explained by Mugenda and Mugenda (2003), pilot study allows errors to be discovered enabling effective revision as it results in determination of participants interest, discovering if the questions have meaning for the participants, checking for the participants modification of the question intent and whether what the researcher is measuring is what was intended to be measured. The instruments were found to measure what the study intended to measure and the questions were clear and easily understood

by the respondents. The research tool was also verified by a supervisor in the form of expert judgement.

### **Instrument Reliability**

In order to validate internal consistency of the research constructs, the researcher used SPSS version 21 to generate Cronbach's alpha co-efficient for the constructs on the pre-test data. The reliability co-efficients for the pre-test data is shown in Table 1. Research has shown that scales with Cronbach's alpha co-efficient of 0.70 or more are considered reliable (Pallant, 2007). Results from the pre-test as indicated in the Table 1 showed Cronbach's Alpha of 0.801, 0.715, 0.781 and 0.725 for each constructs (Section B to E) respectively. This, therefore, suggests that all the four constructs of the study have good internal consistency reliability.

**Table 1: Computed Reliability Co-efficients for Pre-Test Data Collected**

Questionnaire Section	No. of Items	Sample Size	Cronbach's Alpha
Section B	4	25	0.801
Section C	5	25	0.715
Section D	2	25	0.781
Section E	3	25	0.725

Source: Field survey (2018)

### **Data Analysis Procedure**

Quantitative techniques were used in analysing and presenting the data. Quantitative data obtained from the questionnaires are coded and analysed with the help of Statistical Package for Service Solution (SPSS) for windows, version 21. Each of the questions was coded at the variable view of SPSS and the responses from the respondents are entered at data view of the SPSS. Data was analysed based on the stated objectives of the study. Descriptive statistics (mean, standard deviations) and inferential statistics (One-Way ANOVA) were used to analyse continuous data. For categorical data, frequencies and percentages were used.

### **Ethical Issues**

In order to ensure strict compliance with ethical standards of research, the researcher introduced a clause in the introductory paragraph of the questionnaire assuring respondents of anonymity and confidentiality. In addition, the time required for filling the questionnaire was mutually agreed between the respondents and the researcher.



## CHAPTER FOUR

### RESULTS AND DISCUSSION

#### Introduction

This chapter covered the analysis and interpretation of data collected through questionnaire administered to internal auditors and their supporting staffs (numbering 135) of Ghana Education Service in all 25 districts in Volta Region. The data collected were analysed in line with the research questions enumerated in Chapter One. The information presented in this chapter served as input for discussions and interpretation.

#### Demographic Characteristics

This section highlights the demographic characteristics of the respondents. It describes respondents' specialty, educational background, experience, gender, income level, religious background, marital status, and age (Table 2). As stated earlier, all 135 members of the target population responded to the study, after several follow-ups made by the researcher.

Regarding respondents specialty, Table 2 shows that 77.78% (n=105) of the total respondents (n=135) had specialised in 'Accounting' while the remaining 22.22% (n=30) indicated that 'Management' was their specialty. This presupposes that a large proportion of the respondents were aware of the influence of threats to the independence of the internal auditor hence they would be in a better position to make informed contributions to the study. With respect to the highest educational qualification achieved by respondents, results showed that 15 respondents representing 11.11% had Diploma qualification, 95 respondents (70.37%) possessed First Degree, 15 respondents

representing 11.11% had attained their Master's Degree and the remaining 10 respondents representing 7.41% had Institute of Chartered Accountants - Ghana (ICA) qualifications (Table 2). This suggests that all of the respondents had a good level of formal education which facilitated their understanding of the questions upon which they were able to make valuable contributions to the study.

In terms of working experience, it came to light that, 84.44% (n=114) of the respondents had more than five years' experience in auditing (that is, 28.15% + 38.51% + 17.78%). Further examination revealed that, out of the 84.44% of respondents who had more than five years' experience, a majority of 52 have 11 to 15 years' experience in audit practice. This confirms that majority of respondents had practiced auditing and this helped them in understanding internal auditor independence in Ghana Education Service within the Volta Region of Ghana. Considering the gender of respondents, results showed that 63.20% (n= 79) were females while the remaining 36.80% (n=46) were males signifying that the respondents were female dominated (Table 2).

The monthly income of respondents as shown in Table 2 reveals that, majority of 95 respondents (representing 70.37%) fell within GH¢1,000 and GH¢2,000 income level, followed by 25 respondents (signifying 18.52%), who received more than GH¢2,000 every month, then the remaining 15 respondents (constituting 11.11%) received less than GH¢1,000 at the end of every month. In terms of respondents religious affiliations, the study revealed that a majority of 67 respondents (representing 49.63%) were Protestants, followed by Muslims (n=45, signifying 33.33%), after that Catholics (n=20,

representing 14.81%), and finally, Traditionalists (n=3, representing 2.23%). This shows that all respondents have religious affiliations or beliefs.

The marital status of respondents as shown in Table 2 indicated that, majority of the respondents were Married (n=75, 55.56%), 34 of them were Single (25.19%), 15 of them were Widows (11.11%), 8 of them were Widowers (5.92%), two of them were Divorcees (1.48%), and one person was Separated (0.74%). Last but not the least, Table 2 revealed that, while 28 respondents (representing 20.74%) fell within the “18-25” age category, majority of them (n=107, representing 79.26%) were 26 years and above signifying that most of the respondents were matured enough to make informed contributions to the study. Additional investigation revealed that, out of the 79.26%, more than half (n=60, representing 56.07%) fell within the “26-35” age category, followed by “36-45” age category (n=35). This is shown in Table 2.

**Table 2: Demographic Characteristics of Respondents**

SN	Demographics	Frequency	Percentage	Cumulative Percentage
1	Speciality:			
	Accounting	105	77.78%	77.78%
	Management	30	22.22%	100.00%
2	Highest educational qualification:			
	Diploma	15	11.11%	11.11%
	First Degree	95	70.37%	81.48%
	Master’s degree	15	11.11%	92.59%
	ICA	10	7.41%	100.00%
3	Working experience:			
	Less than 5 years	21	15.56%	15.56%
	From 5 - 10 years	38	28.15%	43.71%
	From 11- 15 years	52	38.51%	82.22%
	More than 15 years	24	17.78%	100.00%

**Table 2, continued**

4	Gender:			
	Males	64	47.41%	47.41%
	Females	71	52.59%	100.00%
5	Income level:			
	Less than GH¢1,000	15	11.11%	11.11%
	Between GH¢1,000 and GH¢2,000	95	70.37%	81.48%
	More than GH¢2,000	25	18.52%	100.00%
6	Religious background:			
	Catholics	20	14.81%	14.81%
	Protestants	67	49.63%	64.44%
	Muslims	45	33.33%	97.77%
	Traditional	3	2.23%	100.00%
7	Marital status:			
	Single	34	25.19%	25.19%
	Married	75	55.56%	80.75%
	Separated	1	0.74%	81.49%
	Divorced	2	1.48%	82.97%
	Widow	15	11.11%	94.08%
	Widower	8	5.92%	100.00%
8	Age (years):			
	18-25	28	20.74%	20.74%
	26-35	60	44.44%	65.18%
	36-45	35	25.93%	91.11%
	Above 45	12	8.89%	100.00%

Source: Field survey (2018)

### Factors that Influence Internal Auditor Independence

The first objective of this research project sought to assess the underlying factors that influence internal auditor independence at GES, Volta Region. Prior to this examination, the descriptive statistics for each of the study variables were determined. To achieve this, the data for each of the study variables were analysed into means on a mean scale of 1 to 5 with 1 to 2.9 indicating *low level of agreement* and 3 to 5 indicating *high level of agreement* (as adopted in Dayina, 2017; Ekem, 2017; Koomson, 2017; Mohammed, 2017). This was done in order to enhance the understanding of

the elements that make up the factors that influence internal auditor independence.

In assessing the underlying factors that influence internal auditor independence at GES, Volta Region to be precise (*Objective one*), four indicators were measured on a five-point likert scale. Score '5' shows the strongest agreement and score '1' shows the least agreement. With this measurement scale, the highest overall score is 20.00 (four indicators \* five scale) and the lowest is four. These scores are generalised based on the extent to which respondents agree with the statements provided under "Factors that influence internal auditor independence" on the questionnaire.

First and foremost, the average value of "Giving autonomy to the internal audit function could affect internal auditor independence positively" as an indicator, from a sample of 135 was 3.83 (signifying *high level of agreement*) with a degree of variability from the standard deviation of .967 (Table 3). This finding is consistent with the statement made by Rose *et al.* (2013) in the United States that, significant emphasis must be placed on the importance of reporting lines in maintaining the autonomy of internal auditors.

In addition, the average value of "The possibility for management to influence the budget of internal audit function affects internal auditor independence negatively" as an indicator, from a sample of 135 was 3.77 (signifying *high level of agreement*) with a degree of reliability from the standard deviation of 1.018. This result confirms the findings of Yee *et al.* (2017) that, the independence of the internal audit function is also affected negatively by the possibility for management to influence the budget of internal audit function.

In addition, the average value of “Heavy involvement by senior management in internal audit planning poses a potential threat to the independence of the internal audit function” as an indicator, from a sample of 135 was 3.51 (signifying *high level of agreement*) with a degree of reliability from the standard deviation of 1.010. Similarly, this discovery is in line with the statement of Lenz and Hahn (2015) that, when senior management becomes too heavily involved in influencing the internal audit planning, this act poses a potential threat to the independence of the internal audit function.

Finally, the average value of “Being actively involved in the daily management activities affects internal auditor independence negatively” as an indicator, from a sample of 135 is the mean value was 3.49 (signifying *high level of agreement*) with a degree of variability from the standard deviation of .710. Likewise, this finding is in conformity with the declaration made by the Institute of Internal Auditors (2013) that, in order to enhance the internal audit independence, internal auditors are not required to actively involve themselves in the daily management activities of the organisation. Their main concern should be risk management.

**Table 3: Factors that Influence Internal Auditor Independence**

SN	Indicators	N	Mean	SD
1	Giving autonomy to the internal audit function could affect internal auditor independence positively.	135	3.83	.967
2	The possibility for management to influence the budget of internal audit function affects internal auditor independence negatively.	135	3.77	1.018

**Table 3, continued**

3	Heavy involvement by senior management in internal audit planning poses a potential threat to the independence of the internal audit function.	135	3.51	1.010
4	Being actively involved in the daily management activities affects internal auditor independence negatively.	135	3.49	.710
	Overall Mean Score		3.65	
	Summation of Means		14.60	

Scale (Mean): Low = 1.00 – 2.90; High = 3.00 – 5.00

Source: Field survey (2018)

As a result, the summation of the means of the four indicators that make up the “The factors that Influence Internal Auditor Independence” was 14.60 and this further indicates high level of influence compared to the total score of 20.00. To buttress, the overall mean score from Table 3 is 3.65 (14.60/4). In conclusion, factors such as internal auditors’ active involvement in daily management activities ( $\bar{X} = 3.49$ ), management influencing the budget of internal audit function negatively ( $\bar{X} = 3.77$ ), heavy involvement by senior management in internal audit planning ( $\bar{X} = 3.51$ ), as well as giving autonomy to the internal audit function ( $\bar{X} = 3.83$ ), greatly influence internal auditor independence at GES, Volta Region. Among these factors, giving autonomy to the internal audit function was found to have the greatest influence on internal auditor independence positively ( $\bar{X} = 3.83$ ) at GES, Volta Region.

### **Influence of Threats on Internal Auditor Independence of Mind**

The second objective of this research project sought to examine whether threats affect internal auditor independence of mind at GES, Volta Region. To achieve this objective, five more indicators were measured on a five-point likert scale. Score '5' shows the strongest agreement and score '1' shows the least agreement. With this measurement scale, the highest overall score is 25.00 (five indicators \* five scale) and the lowest is five. These scores are generalised based on the extent to which respondents agree or disagree with the statements provided under "Influence of Threats on Internal Auditor Independence of Mind" on the questionnaire.

In Table 4, the average value of "I have a concern that I may lose my job due to interferences from top-management (*Self-interest threats, Intimidation threats*)" as an indicator, from a sample of 135 was 3.38 (signifying *high level of agreement*) with a degree of reliability from the standard deviation of .925. This result is consistent with the opinion of several researchers in the field (Nawaiseh & Alnawaiseh, 2015; Thunaibat, 2015). According to the researchers, self-interest threats and intimidation threats such as the anxiety of losing one's job affect internal auditor independence.

Also, the average value of "I lend or borrow from top-management in my district (*Self-interest threats*)" as an indicator, from a sample of 135 was 3.32 (signifying *high level of agreement*) with a degree of variability from the standard deviation of 1.325 (Table 4). This discovery is in line with the declaration made by several researchers in the field (Nawaiseh & Alnawaiseh, 2015; Thunaibat, 2015). According to the researchers, self-interest threats such



as lending loans or receiving loans from the client (in this case, top-management) affect internal auditor independence.

Besides, the average value of “Top-management in my district provides me with guarantees when I need them and vice versa (*Self-interest threats*)” as an indicator, from a sample of 135 was 3.27 (signifying *high level of agreement*) with a degree of reliability from the standard deviation of .895 (Table 4). This finding is in conformity with the assertion made by several researchers in the field (Nawaiseh & Alnawaiseh, 2015; Thunaibat, 2015). According to them, self-interest threats such as receiving conditional fees from the client (in this case, top-management) affect internal auditor independence.

To add, the average value of “I have material interest directly or indirectly with top-management in my district (*Self-interest threats*)” as an indicator, from a sample of 135 was 3.12 (signifying *high level of agreement*) with a degree of reliability from the standard deviation of .724 (Table 4). This outcome is in line with the claim made by several researchers in the field (Nawaiseh & Alnawaiseh, 2015; Thunaibat, 2015). According to them, self-interest threats occur when the internal auditor has material or non-material interests with the client (in this case, top-management) and these threats affect internal auditor’s independence.

Finally, the average value of “There is someone in my family working at the top-level management in my district (*Self-interest threats*)” as an indicator, from a sample of 135 was 2.98 (signifying *low level of agreement*) with a degree of reliability from the standard deviation of 1.198 (Table 4). This indicator had the least agreement from respondents probably because few of them had family members at top-level management in their districts and

therefore it is not likely to influence their independence. According to some researchers (Nawaiseh & Alnawaiseh, 2015; Thunaibat, 2015), having a family relation with a client (in this case, top management staff) could greatly influence the internal auditor independence.

**Table 4: Influence of Threats on Internal Auditor Independence of Mind**

SN	Indicators	N	Mean	SD
1	I have a concern that I may lose my job due to interferences from top-management ( <i>Self-interest threats, Intimidation threats</i> ).	135	3.38	.925
2	I lend or borrow from top-management in my district ( <i>Self-interest threats</i> ).	135	3.32	1.325
3	Top-management in my district provides me with guarantees when I need them and vice versa ( <i>Self-interest threats</i> ).	135	3.27	.895
4	I have material interest directly or indirectly with top-management in my district ( <i>Self-interest threats</i> ).	135	3.12	.724
5	There is someone in my family working at the top-level management in my district ( <i>Self-interest threats</i> ).	135	2.98	1.198
	Overall mean score		3.21	
	Summation of means		16.07	

Scale (Mean): Low = 1.00 – 2.90; High = 3.00 – 5.00

Source: Field survey (2018)

Thus, the sum of the means of the five indicators that make up “The Influence of Threats on Internal Auditor Independence of Mind” was 16.07 and this showed high level of influence compared to the total score of 25.00. More so, the overall mean score from Table 4 was 3.21 (16.07/5) and this further shows that threats (*self-interest and intimidation threats*) greatly affect internal auditor independence of mind at GES, Volta Region. Again, this finding confirms the result of Nawaiseh and Alnawaiseh (2015) in Jordan that threats (Self-interest threats, Self-review threats, Advocacy threats, Familiarity

or intimacy threats, and Intimidation threats) affected the internal auditor's independence of mind.

### **Influence of Threats on Internal Auditor Independence of Appearance**

The third objective of this research project sought to establish whether threats affect internal auditor independence in appearance at GES, Volta Region. To accomplish this objective, two more indicators were measured on a five-point likert scale. Score '5' shows the strongest agreement and score '1' shows the least agreement. With this measurement scale, the highest overall score is 10.00 (two \* five scale) and the lowest is two. These scores are generalised based on the extent to which respondents agree or disagree with the statements provided under "Influence of Threats on Internal Auditor Independence of Appearance" on the questionnaire.

In Table 5, the average value of "I accept the circumstances and events that may cause doubts in the audit report (*Self-review threats*)" as an indicator, from a sample of 135 is the mean value was 2.35 (signifying *low level of agreement*) with a degree of reliability from the standard deviation of .612. Also, the average value of "I accept gifts from top management because it may affect the results of the audit (*Self-interest threats*)" as an indicator, from a sample of 135 was 2.15 (signifying *low level of agreement*) with a degree of reliability from the standard deviation of 1.013 (Table 5).

Consequently, the sum of the means of the two indicators that make up "The influence of Threats on Internal Auditor Independence of Appearance" is 4.5 and this showed low level of influence compared to the total score 10.00. To buttress, the overall mean score from Table 5 was 2.25 and this further

shows that threats (*self-interest and self-review threats*) do not affect internal auditor independence of appearance at GES, Volta Region. This result is at variance with the finding of Nawaiseh and Alnawaiseh (2015) in Jordan, where they found that threats (Self-interest threats, Self-review threats, Advocacy threats, Familiarity or intimacy threats, and Intimidation threats) affected the internal auditor's independence of appearance. Probably, the internal auditors in GES (Volta Region) were afraid of revealing the truth due to fear of disclosure.

**Table 5: Influence of Threats on Internal Auditor Independence of Appearance**

SN	Indicators	N	Mean	SD
1	I accept the circumstances and events that may cause doubts in the audit report ( <i>Self-review threats</i> ).	135	2.35	.612
2	I accept gifts from top management because it may affect the results of the audit ( <i>Self-interest threats</i> ).	135	2.15	1.013
	Overall mean score		2.25	
	Summation of means		4.5	

Scale (Mean): Low = 1.00 – 2.90; High = 3.00 – 5.00

Source: Field survey (2018)

### Challenges of Internal Audit

The fourth objective of this research project sought to assess the challenges of internal audit at GES, Volta Region. To realize this objective, three more indicators were measured on a five-point likert scale. Score '5' shows the strongest agreement and score '1' shows the least agreement. These scores are generalised based on the extent to which respondents with the statements provided under "Challenges of Internal Audit" on the questionnaire.

In Table 6, the average value of “Little support is given to me in terms of my relationship with top management and with audit committee” as an indicator, from a sample of 135 was 3.42 (signifying *high level of agreement*) with a degree of variability from the standard deviation of .917. This finding contravenes the statement made by researchers in the field (Cornelissen *et al.*, 2015; Fredriksson *et al.*, 2013). In their view, internal auditors require reinforcing their relationship with the board of directors and with audit committee.

Similarly, the average value of “I am usually subordinated in terms of my decision during an audit to management” as an indicator, from a sample of 135 was 3.33 (signifying *high level of agreement*) with a degree of reliability from the standard deviation of 1.208 (Table 6). This result is contrary to the claims of Börner and Verstegen (2013). Börner and Verstegen claims that, internal auditors should not subordinate their decision during an audit to management but they cooperate with them and accept boards of director’s judgment about management.

Likewise, the average value of “The objectivity of my task as an internal auditor is compromised sometimes in the reporting line, where am required to report and review operational areas” as an indicator, from a sample of 135 was 3.32 (signifying *high level of agreement*) with a degree of reliability from the standard deviation of .810 (Table 6). This finding is at variance with the assertion of Börner and Verstegen (2013). In their view, the internal audit should be an objective task and should not be compromise sometimes in the reporting line, where they required to report and review the operational areas.

Consequently, it can be said that internal auditors in GES, Volta Region are: given little support in terms of their relationship with top management and with audit committee; are usually subordinated in terms of their decision during an audit to management; and the objectivity of their task as internal auditors are compromised sometimes in the reporting line, where they are required to report and review operational areas.

**Table 6: Challenges of Internal Audit**

SN	Indicators	N	Mean	SD
1	Little support is given to me in terms of my relationship with top management and with audit committee.	135	3.42	.917
2	I am usually subordinated in terms of my decision during an audit to management.	135	3.33	1.208
3	The objectivity of my task as an internal auditor is compromised sometimes in the reporting line, where am required to report and review operational areas.	135	3.32	.810

Scale (Mean): Low = 1.00 – 2.90; High = 3.00 – 5.00

Source: Field survey (2018)

### **Differences that Exist in Various Internal Auditor Threats based on Gender**

The fifth objective of this research project sought to assess whether significant differences exist in the various auditor threats, based on demographic factors. To realise this objective, one-way ANOVA was employed. Results, as shown in Table 7, showed that there is no difference in the mean level of the various internal audit threats among males and females and that the means among males and females are equal. This is because the Sig. values of the F-stat of all the various internal auditor threats are more than 0.05.

**Table 7: Differences in Auditor Independence Based on Gender**

		Sum of Squares	df	Mean Square	F	Sig.
I have material interest directly or indirectly with top-management in my district (Self-interest threats).	Between Groups	.275	1	.275	.419	.519
	Within Groups	87.458	133	.658		
	Total	87.733	134			
I have a concern that I may lose my job due to interferences from top-management (Self-interest threats, Intimidation threats).	Between Groups	.261	1	.261	.579	.448
	Within Groups	59.887	133	.450		
	Total	60.148	134			
I lend or borrow from top-management in my district (Self-interest threats).	Between Groups	.104	1	.104	.278	.599
	Within Groups	49.496	133	.372		
	Total	49.600	134			
Top-management in my district provides me with guarantees when I need them and vice versa (Self-interest threats).	Between Groups	.226	1	.226	.642	.424
	Within Groups	46.708	133	.351		
	Total	46.933	134			
There is someone in my family working at the top-level management in my district (Self-interest threats).	Between Groups	.128	1	.128	.351	.555
	Within Groups	48.465	133	.364		
	Total	48.593	134			
I accept gifts from top management because it may affect the results of the audit (Self-interest threats).	Between Groups	.184	1	.184	.324	.570
	Within Groups	75.549	133	.568		
	Total	75.733	134			
I accept the circumstances and events that may cause doubts in the audit report (Self-review threats).	Between Groups	.472	1	.472	.395	.531
	Within Groups	158.832	133	1.194		
	Total	159.304	134			

Source: Field survey (2018)

## CHAPTER FIVE

### SUMMARY, CONCLUSION AND RECOMMENDATIONS

#### Introduction

This chapter presents summary of the study and major findings derived from the study. Conclusions arrived and recommendations arising from the findings are provided in this chapter.

#### Summary of the Study

This study assessed internal auditor independence in Ghana Education Service with evidence from Volta Region. Quantitative research methodology was adopted for the study hence the analyses were quantitative in nature. First and foremost, a pilot survey to establish the instrument's validity was carried out on 25 respondents in each of the districts in Volta Region with an aim to improve the use of the primary data. All 25 questionnaires issued to the respondents were recovered. The sample size conformed to minimum criteria of 10 for pilot studies by students proposed by Saunders *et al.* (2007). This improved the validity, which made the quality of research trustworthy and scientific. Though some grammatical errors were corrected, no changes were made in the questionnaire with respect to each of the statement in the constructs since all the statements were understood by the respondents.

The study used descriptive survey as its research design and used the census method to select all 135 staff that served as sample size for the study, owing to the small size of the population. Respondents constituted all 135 internal auditors and their supporting staffs of Ghana Education Service in all 25 districts in Volta Region. Upon several follow-ups made by the researcher,



all 135 members of the target population responded to the study hence a return rate of 100%.

A structured close-ended questionnaire was the main instrument used for data collection. The questionnaire was made up of 22 items. The 22 items on the questionnaire were grouped into five important sections namely A to E. The data collected were analysed using descriptive statistical tools, particularly frequency tables with their associated percentages, and mean scores with their associated standard deviation values) with the help of SPSS for windows, version 21. The findings were organised in line with the research objectives which were formulated to guide and give the study direction.

Concerning the first objective which sought to assess the underlying factors that influence auditor independence at GES, Volta Region, it came to light that factors such as internal auditors' active involvement in daily management activities, management influencing the budget of internal audit function negatively, heavy involvement by senior management in internal audit planning, as well as giving autonomy to the internal audit function greatly influence internal auditor independence at GES, Volta Region. Among these factors, giving autonomy to the internal audit function was found to have the greatest influence on internal auditor independence positively.

The second objective of this dissertation sought to examine whether threats affect internal auditor independence of mind at GES, Volta Region. Results showed that to a large extent, threats (*self-interest threats and intimidation threats*) affect internal auditor independence of mind at GES, Volta Region positively.

The third objective of this research project sought to establish whether threats affect internal auditor independence in appearance at GES, Volta Region. Results showed that threats (*self-interest threats and self-review threats*) do not affect internal auditor independence in appearance at GES, Volta Region.

With respect to the fourth objective, which sought to assess the challenges of internal audit at GES, Volta Region, findings revealed that internal auditors in GES, Volta Region are: given little support in terms of their relationship with top management and with audit committee; are usually subordinated in terms of their decision during an audit to management; and the objectivity of their task as internal auditors are compromised sometimes in the reporting line, where they are required to report and review operational areas.

The final objective which sought to assess whether significant differences exist in the various auditor threats based on gender revealed that, there is no difference in the mean level of the various internal audit threats among males and females and that the means among males and females are equal.

## **Conclusions**

The study assessed internal auditor independence in Ghana Education Service with evidence from Volta Region. The study concluded that:

- ✚ Self-interest and intimidation threats greatly affect internal auditor independence of mind at GES, Volta Region.
- ✚ Self-interest and self-review threats do not affect internal auditor independence of appearance at GES, Volta Region.

- ✚ Internal auditors and their supporting staffs at GES (Volta Region) are given little support in terms of their relationship with top management and with audit committee.
- ✚ Internal auditors and their supporting staffs at GES (Volta Region) are usually subordinated in terms of their decision during an audit to management.
- ✚ The objectivity of the task of internal auditors at GES (Volta Region) is compromised sometimes in the reporting line, where they are required to report and review operational areas.

### **Recommendations**

After assessing internal auditor independence in Ghana Education Service with evidence from Volta Region, it is appropriate to make recommendations to help improve the present situation. The study recommends that:

- ✚ Substantial emphasis must be placed on the importance of reporting lines in maintaining the autonomy of internal auditors.
- ✚ Senior management at GES (Volta Region) should do well to reduce their involvement in internal audit planning at the district level.
- ✚ Internal auditors at GES (Volta Region) should not actively involve themselves in the daily management activities.
- ✚ Top management at GES (Volta Region) should recognise the important role internal audit play and if need be, support them with enough resources to enable them execute their mandate.

- ✚ The Ghana Audit Service should ensure strict adherence to the several independence guidelines of the Internal Audit to keep in mind when considering reporting lines for internal audit.

### **Limitations of the Study**

The confinement of the population to internal auditors and their supporting staffs at GES (Volta Region) renders the result of the study applicable mainly to such jurisdiction. Also, relying only on internal auditors and their supporting staffs as the sole respondents raises questions regarding possible bias. Furthermore, the use of close-ended Likert-type scale statements limited the amount of information respondents may provide with respects to the main variables of the study.

### **Suggestion for Future Research**

In addition to the quantitative study, further studies should use a qualitative approach by interviewing key management staffs to confirm the results of the quantitative phase and also to find answers to some questions not captured in the closed-ended questionnaire. Consequently, a mixed methodology is proposed for further studies so as to provide answers to the numbers.

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**APPENDIX**  
**QUESTIONNAIRE**

**INTERNAL AUDIT INDEPENDENCE IN GHANA EDUCATION**  
**SERVICE: EVIDENCE FROM VOLTA REGION**

This questionnaire is designed to gather information for a research project in partial fulfilment of the requirement for Master of Business Administration (General Management) degree from University of Cape Coast (UCC). Your participation is necessary and your responses will be treated confidential and for academic purpose only.

Please tick [] the appropriate response where options are provided and write your response where spaces are provided.

**Section A: Demographic Characteristics**

- A1. Specialty: a. Accounting []  
b. Other(s), please specify.....
- A2. Highest educational qualification: a. Diploma [] b. First Degree [] c. Masters' Degree [] d. ICA qualification [] e. ACCA qualification [] f. CIMA qualification []  
g. other(s), please specify .....
- A3. Working experience: a. Less than 5 years [] b. From 5 to 10 years [] c. From 11 to 15 years [] d. More than 15 years []  
e. Other(s), please specify .....
- A4. Gender: a. Male [] b. Female []
- A5. Monthly income: a. Less than GHØ1,000 [] b. Between GHØ1,000 and GHØ2,000 [] c. More than GHØ2,000 []
- A6. Religious background: a. Catholics [] b. Protestants [] c. Muslims [] d. Traditional [] e. other(s), please specify.....
- A7. Marital Status: a. Single [] b. Married [] c. Separated [] d. Divorced [] e. Widow [] f. Widower []
- A8. Age (years): a. 18-25 [] b. 26-35 [] c. 36-45 [] d. Above 45 []

**Section B: Factors that Influence Internal Auditor independence**

Each of the following statements relates to the factors that influence internal auditor independence. Please indicate your level of agreement to each of the statements using the scale:

“1=Least Agreement to 5: Strong Agreement”

Statements					
B1. Being actively involved in the daily management activities affects internal auditor independence negatively.	1	2	3	4	5
B2. The possibility for management to influence the budget of internal audit function affects internal auditor independence negatively.	1	2	3	4	5
B3. Heavy involvement by senior management in internal audit planning poses a potential threat to the independence of the internal audit function.	1	2	3	4	5
B4. Giving autonomy to the internal audit function could affect internal auditor independence positively.	1	2	3	4	5

**Section C: Influence of Threats on Internal Auditor Independence of Mind**

Each of the following statements relate to the influence of threats on internal auditor independence of mind. Please indicate the level of your agreement to each of the following statements anchored on the scale:

“1=Least Agreement to 5: Strong Agreement”

Statements					
C1. I have material interest directly or indirectly with top-management in my district ( <i>Self-interest threats</i> ).	1	2	3	4	5
C2. I have a concern that I may lose my job due to interferences from top-management ( <i>Self-interest threats, Intimidation threats</i> ).	1	2	3	4	5
C3. I lend or borrow from top-management in	1	2	3	4	5



my district ( <i>Self-interest threats</i> ).					
C4. Top-management in my district provides me with guarantees when I need them and vice versa ( <i>Self-interest threats</i> ).	1	2	3	4	5
C5. There is someone in my family working at the top-level management in my district ( <i>Self-interest threats</i> ).	1	2	3	4	5

**Section D: Influence of Threats on Internal Auditor Independence in Appearance**

Each of the following statements relate to the influence of threats on internal auditor independence in appearance. Please indicate the level of your agreement to each of the following statements anchored on the scale:

“1=Least Agreement to 5: Strong Agreement”

Statements					
D1. I accept gifts from top management because it may affect the results of the audit ( <i>Self-interest threats</i> ).	1	2	3	4	5
D2. I accept the circumstances and events that may cause doubts in the audit report ( <i>Self-review threats</i> ).	1	2	3	4	5

**Section E: Challenges of Internal Audit**

Each of the following statements relate to the challenges of internal audit at GES, Volta Region. Please indicate the level of your agreement to each of the following statements anchored on the scale:

“1=*Least Agreement* to 5: *Strong Agreement*”

Statements					
E1. I am usually subordinated in terms of my decision during an audit to management.	1	2	3	4	5
E2. The objectivity of my task as an internal auditor is compromised sometimes in the reporting line, where am required to report and review operational areas.	1	2	3	4	5
E3. Little support is given to me in terms of my relationship with top management and with audit committee.	1	2	3	4	5