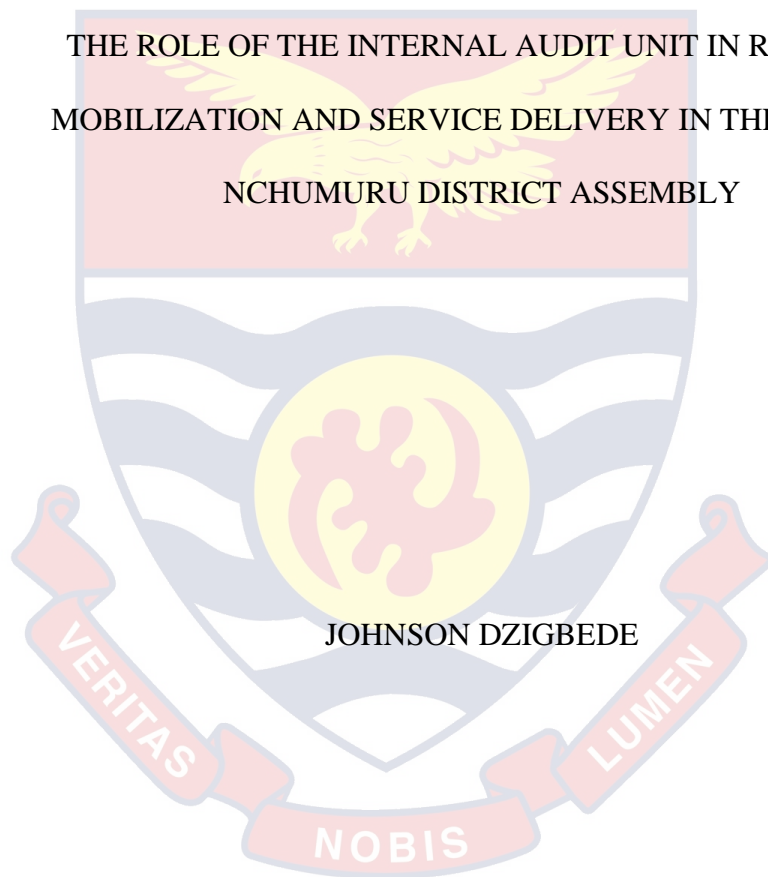


UNIVERSITY OF CAPE COAST

THE ROLE OF THE INTERNAL AUDIT UNIT IN REVENUE  
MOBILIZATION AND SERVICE DELIVERY IN THE KRACHI  
NCHUMURU DISTRICT ASSEMBLY

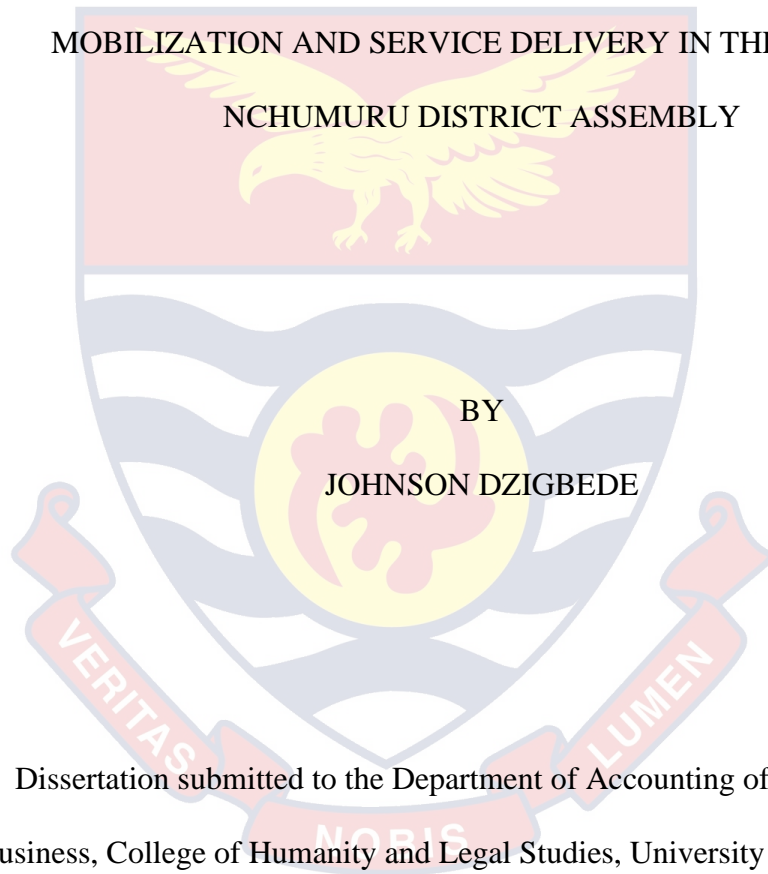


JOHNSON DZIGBEDE

2020

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MOBILIZATION AND SERVICE DELIVERY IN THE KRACHI  
NCHUMURU DISTRICT ASSEMBLY



BY

JOHNSON DZIGBEDE

Dissertation submitted to the Department of Accounting of the School of  
Business, College of Humanity and Legal Studies, University of Cape Coast in  
partial fulfillment of the requirements for the award of Master of Business

Administration degree in Accounting

SEPTEMBER 2020

## DECLARATION

### Candidate's Declaration

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

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

Candidate's Name: Johnson Dzigbede

### Supervisor's 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 .....

Supervisor's Name: Prof. Edward Marfo-Yiadom

## ABSTRACT

Internal audit in institutions especially, the Metropolitan, Municipal and District Assemblies constitute an integral part of ensuring good governance, effective revenue mobilization and service delivery. The study assessed the roles of internal audit unit in revenue mobilization, the channels of revenue leakages and internal control strategies and policies for Krachi Nchumuru District Assembly. Data was sourced from direct interviews with selected staff and expert opinions from selected practitioners in auditing; Krachi Nchumuru District Assembly's composite budget and annual financial statements were also used for sourcing data. There exists a functioning audit committee in Krachi Nchumuru District Assembly. The internal audit unit lack professional competence and the independence of internal audit have been improved significantly through the promulgation of the Public Financial Management Act, 2016 (Act 921). Findings of the study confirmed that lack of public education and sensitization, proper monitoring exercise, lack of accountability and lack of training for auditors impacts negatively on prudent revenue mobilization. In view of this, it is recommended that internal audit unit at Krachi Nchumuru District Assembly should be adequately resource to ensuring prudent revenue mobilization, enforcement of Assembly's bye-laws and duty bearers should render social accountability so as to win the trust of the rate payers.

**KEY WORDS**

Internal audit

Internal audit unit

Internal control

Revenue

Revenue leakage

Revenue mobilization



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## DEDICATION

To my brothers: Adolph, Prince and Gordon.



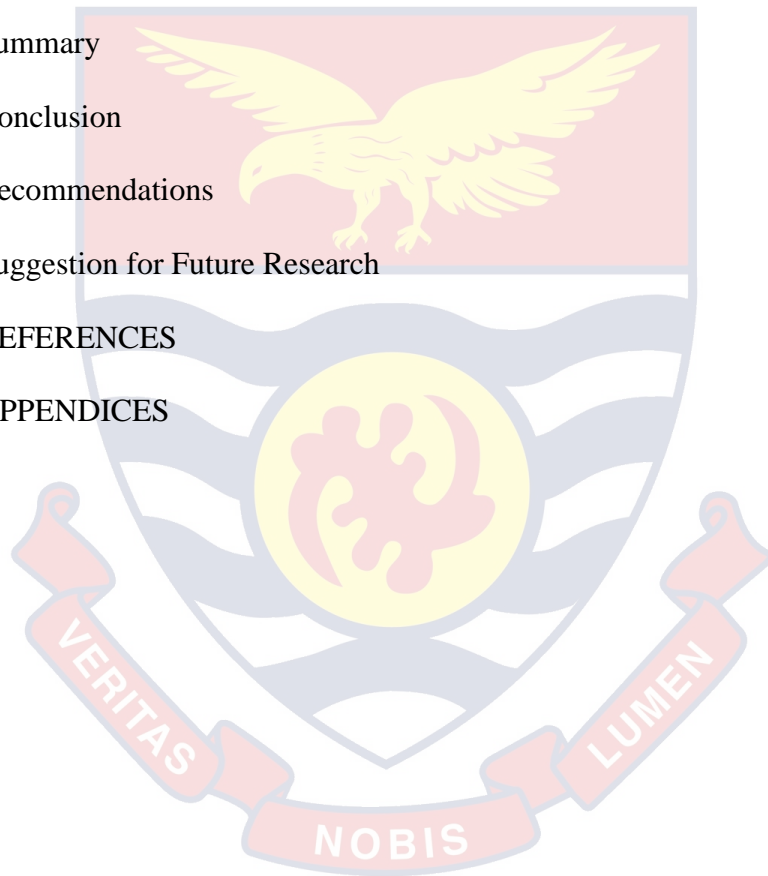
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## LIST OF ACRONYMS

|      |                                       |
|------|---------------------------------------|
| AMA  | Accra Metropolitan Assembly           |
| ARIC | Audit Report Implementation Committee |
| CPDs | Continuous Professional Developments  |
| DACF | District Assembly Common Fund         |
| ERP  | Economic Recovery Programme           |
| GCR  | General Counterfoil Receipts          |



|       |  |
|-------|--|
| IA    | Internal Audit                             |
| IAAG  | Internal Audit Agency Ghana                |
| IAU   | Internal Audit Unit                        |
| IGF   | Internally Generated Fund                  |
| KNDA  | Krachi Nchumuru District Assembly          |
| MDAs  | Ministries Departments and Agencies        |
| MMDAs | Metropolitan Municipal District Assemblies |
| PFMA  | Public Financial Management Act            |
| PRCC  | Public Relation and Complaints Committee   |
| SAI   | Supreme Audit Institution                  |

## CHAPTER ONE

### INTRODUCTION

The internal audit play a major role in the life time of every organisation that operates in the society. The internal audit unit have so many functions that make their work unique and for that matter their role in curbing leakages in funds mobilisation should not be downplayed. Government institutions however are expected to be up and doing in terms of utilization of resources given sufficient revenue from the government. The government therefore get revenues from the taxes paid and grants. Agencies involved should in the mobilisation of these revenues should be put on check to minimize leakages in the system. This is where internal audit play their major roles but the problem lies with the increasing leakages in revenue mobilisation and service delivery by these districts assemblies set by government. The study therefore introduces and investigates into the role of internal audit in curbing this problem.

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

One principal objective of decentralization is to promote good governance and service delivery to citizens (Suley & Yuanqiong, 2019). Agreeably, Oates (2010) opines that, decentralization is aimed at delivering quality services that is in line with the geographical consumption pattern of communities. Oates (2010) further argued that, this is possible if the local authorities are adequately resourced couple with good managerial skills. This refers to good governance practice and the ability of Metropolitan, Municipal and District Assemblies (MMDAs) to mobilize enough revenue to promote inclusive growth and development. Arguments submitted by Suley and Oates

were properly explained by Korten and Klaus (2009) in their definition for development. According to Korten and Klaus, development refers to the process where the constituents of a community bring to reality their potentials and institutional abilities to marshal and manage enough resources to provide viable growth. This lends credence to the fact that, effective local level revenue mobilization and good governance practice are the right vehicles to achieve inclusive growth espoused by decentralization experts.

Internal audit in institutions especially, the Metropolitan, Municipal and District Assemblies constitute an integral part of ensuring good governance, effective revenue mobilization and service delivery. As stated by Watts (2014), internal audit is one of the key success factors for effective governance of many institutions in the world. Kudo (2017) opines that, internal health of any organization regarding financial activities and general operations is measured by the existence and functionality of Internal Audit Units. He further argued that, directors and managers of institutions, regulators and government should prioritize and ensure that, Internal Audit Units are robustly effective so as to achieve the objectives of the organization. According to the Institute of Internal Auditors, Ghana (2013), internal audit refers to independent, objective assurance and consulting activity meant to add value and improve the operations of an institutions especially, risk management, governance and internal controls. In this study, internal audit, and internal controls will be interchangeably.

Internal Audit in every institution plays an essential role in achieving its core objectives as opined by Watts (2014). In the case of MMDAs, one of the core functions is to deliver quality services which meet the developmental

demands of the local constituents through effective local resource mobilization (Suley, 2009). This implies that, MMDAs risk of failing to deliver on their core mandate if local resources are not effectively mobilized and managed. In view of this, local government experts and practitioners over the years have called on MMDAs to develop and implement standard internal control systems which improve service delivery (Dewi & Hoesada, 2020). A study by Tahiru, Agbesi and Osei-Owusu (2014) in assessing revenue mobilization challenges among Metropolitan, Municipal and District Assemblies (MMDAs) in Ghana, identified weak internal controls as one key factor militating against effective revenue mobilization. These findings amplify the strategic importance of internal auditing in local government revenue mobilization process.

Tackie, Marfo-Yiadom and Achina, (2016) defined internal controls as the mechanisms designed and implemented by an organization to aid in the attainment of the organization's objectives, mission and vision. Stated differently by Scott (2017), internal control refers to strategies instituted by an organization so as to promote effective and efficient service delivery.

According to Kudo (2017), internal audit comprises a set of procedures and policies engineered and implemented to ensure that, financial transactions of a particular organization is devoid of theft, misuse and wastage. Since the adoption of decentralization policy in 1988, the government of Ghana, over the years has significantly improved the requirement for standard internal controls in MMDAs. For instance, recognizing the significance of internal audit in governance and effective resource mobilization, the framers of the Local Governance Act (2016), in sections 175 to 180 clearly stipulates the establishment of internal audit units also detailed the functions to be



performed. In furtherance of this, the Public Financial Management Act, 2016 (Act 921) in section 183 (2) also made provision for a covered entity like MMDAs to design and implement effective risk management system, internal controls and internal audit unit for effective resource mobilization and other transactions.

**Table 1: Revenue Performance for 2017 and 2018 fiscal years**

| Finance Year | Budget IGF Revenue | Actual     | % of Performance |
|--------------|--------------------|------------|------------------|
| 2017         | 340,986.52         | 328,622.57 | 96.37            |
| 2018         | 350,788.00         | 163,080.27 | 46.49            |

Source: KNDA Financial Report, (2018)

Table1 indicates that, a sharp decline in 2018 revenue performance by 49.88% which could be largely attributed to the massive leakages in the system. The sharp decline in revenue indicates the heightened situation in the ground and thus, calls for an empirical study to identify and document the challenges.

Undoubtedly, existing and effective internal audit unit in MMDAs ensures effective and efficient revenue mobilization. Though, the functions of internal audit are not limited to revenue mobilization however, expenditure functions will come to nothing if the needed resources are not mobilized. One of the core functions of IA, in MMDAs is to boost revenue mobilization by preventing fraud and corruption on daily basis revenue collectors. This dissertation therefore, seeks to assess the role of internal audit in revenue mobilization by MMDAs focusing on Krachi Nchumuru District Assembly. A study by Bahiigwa, Frank, Odd-Helge and Iversen (2004) found that, effective

local level revenue mobilization depends largely on the effectiveness and efficiency of internal audit units, commitment by management and strong internal controls. Addo (2012) also argued that, internal auditing and internal controls are intrinsically linked. According to him, effective and efficient internal auditing reflects on internal controls. It is therefore, not surprising or out of place to see other empirical studies adopts “effectiveness of internal controls” as a topic instead of “effectiveness of internal audit.

In Krachi Nchumuru District Assembly (henceforth refer to as KNDA), there had been reported cases of revenue leakages in various forms. For instance, the minutes of 2018 second quarter meeting of the Public Relations and Complaints Committee (PRCC) of Krachi Nchumuru District Assembly duly captured corruption cases against revenue staff.

#### **Statement of the Problem**

As earlier on stated, internal auditing plays an essential role in ensuring effectiveness and efficiency in overall service delivery in many organizations in world. In the Metropolitan, Municipal and District Assemblies, they promote strong internal controls especially, in revenue mobilization and utilization. For instance, according to Ghana Internal Auditors’ Manual (2006), an internal auditor shall;

1. Ensure the safeguarding of the Assembly’s assets and interests from losses of all kind, including those arising from fraud, irregularity and corruption.
2. Analyze the internal control system of the Assembly and establish a review programme.

3. Ensure that, all monies mobilized and in the possession of revenue collectors are properly verified and banked within twenty-four (24) hours.

Despite these roles there has a decline in the revenue performance by the KNDA. Among the specific issues raised were, monies collected by revenue collectors without receipts, under carbon shifting and the use of fake General Counterfoil Receipts (GCR) by revenue collectors. This impacted negatively on the actual revenue mobilized in 2018 fiscal year as against 2017 fiscal year (see Table1). This study therefore, seeks to assess the role of internal audit on revenue mobilization and service delivery by MMDAs thereby looking at ways of revenue leakages while focusing on Krachi Nchumuru District Assembly.

### **Purpose of the Study**

Generally, the study aims at evaluating the role of the internal audit unit in revenue mobilization and service delivery by the Krachi Nchumuru District Assembly, (KNDA).

### **Research Objectives**

The specific objectives of the study are to:

1. Assess the role of internal audit unit in revenue mobilization at KNDA.
2. Identify the channel of revenue leakages in KNDA
3. Proffer internal control strategies and policies for KNDA.

### **Research Questions**

1. What is the role of internal audit unit in revenue mobilization at KNDA?
2. What is the channel of revenue leakages in KNDA?

3. What are the internal control strategies and policies needed for KNDA?

### **Significance of the Study**

The findings of the study are of use to the government, civil society groups, state agencies, policy makers and researchers in dealing with issues of revenue mobilization and service delivery. This study provide relevant data which can be used by the Assembly to develop new policies or make reforms on the existing ones on how to improve the development of the district through revenue mobilization and service delivery.

This research work may help MMDAs to better improve revenue mobilization and service delivery especially at the Krachi Nchumuru District and scholars and academicians, it adds to the already existing literature which will help in developmental activities.

### **Delimitation of the study**

The study focused on internal audit role in revenue mobilization by MMDAs. The study area is limited to the administrative jurisdiction of Krachi Nchumuru District Assembly and the revenue collectors, rate payers and staff involved are within KNDA jurisdiction. The unit of analysis for this dissertation consists of the selected staff with key roles in revenue mobilization, selected revenue collectors and rate payers. Secondary data for the dissertation was sourced from the District Assembly's financial reports. Again, the study did evaluate the behavioral dynamics of individuals involved.

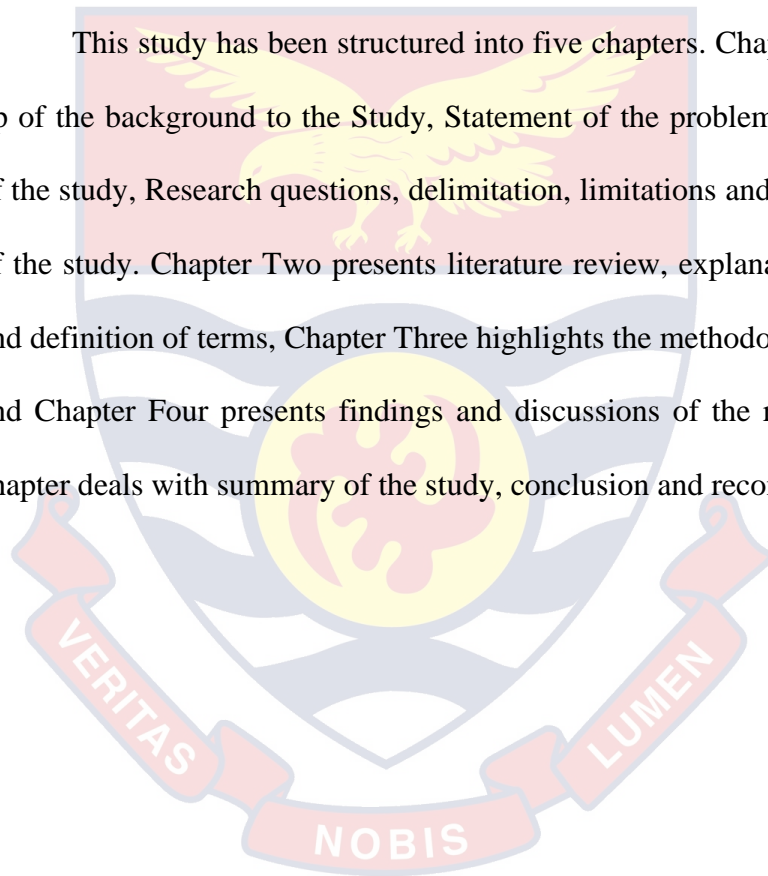
### **Limitation of the Study**

The main limitation of the study is that the study looked at sources of funds from the government, banks and parastatal organisations and NGOs

which are not the only the sources of revenues for the MMDAs to explore. The study used secondary information within a specific period which may be true for that particular period. The study was constrained by finance and time. The study is also limited longitudinally. Given the relatively short period within which this study was conducted, it was not possible to undertake a longitudinal study to measure stability or otherwise in research findings.

### **Organization of the Study**

This study has been structured into five chapters. Chapter One is made up of the background to the Study, Statement of the problem, and Objectives of the study, Research questions, delimitation, limitations and the organization of the study. Chapter Two presents literature review, explanation of concepts and definition of terms, Chapter Three highlights the methodology of the study and Chapter Four presents findings and discussions of the results. The final chapter deals with summary of the study, conclusion and recommendations.



## CHAPTER TWO

### LITERATURE REVIEW

#### Introduction

This chapter explains the theoretical framework guiding the study's objectives. The chapter also highlighted on the legal framework for public sector auditing, internal auditing within Metropolitan, Municipal and District Assemblies and reviewed relevant empirical literature on internal audit roles.

#### Theoretical Framework

There are a lot of theories related to the study of auditing and the role they play in every organisation. Considering the objectives of the study, the study draws on two theories as bedrocks for investigation. These are the profession and institutional theories. These theories are therefore, discussed below.

#### Profession theory

Profession can be interpreted in ambivalent ways, from the rise of professions as knowledge triumphant to a malfeasance of a monopoly of knowledge (Abbott, 2009). With the growing rate of information and knowledge, professions occupy a key position in society. In this sense, the internal audit profession is key to ensuring that organizations remain sound; emphasizing on objectivity, confidentiality and competency. Winters (2009) also argues that, individual internal auditors can only achieve their full potential if the profession as such is strengthened. Important steps to advocate the profession include: complying with standards, communicating to senior management and the audit committee about internal auditing role and value in

providing assurance, developing supportive mentoring with colleagues and clients.

### **Institutional theory**

Institutional theory explains how organizational structures and practices are shaped through changes induced by normative pressures, including both external and internal sources such as laws and regulations, or by the professions (Zucker, 1987; Mihret, James & Mula, 2010). Several previous studies Al-Twaijry, Brierley & Gwilliam, 2003; Arena & Azzone, 2018 and Mihret et al., (2010) on internal audit have drawn on the institutional theory. Empirical works cited from these studies tend to suggest that the institutional theory is a valid theory for internal audit effectiveness which has been employed in both developed and developing regions.

### **Conceptual Review**

The study on Internal Audit (IA) roles has been underpinned by a conceptual framework by Matthew (2017). As adopted by Kudo (2017), this model provided simple but essential parameters believed to be the pillars for measuring roles of internal auditing within the public sector especially, the MMDAs. The eight (8) critical factors outlined below work in interrelated mode to create an environment that promotes the overall roles of internal auditing. Therefore, a weakness in one of the factors leads to ineffectiveness of IAU. The eight (8) critical success factors on internal audit unit include;

1. Internal Audit Independence. This implies that, internal audit units in the various MMDAs should be devoid of influence from both internal and external actors as well as things it audit or investigate. Section 200 of the

Internal Audit Agency Ghana Standard (IAAG) calls for the independence IA units so as to promote objective risk assessment of situations.

2. Clarity and Scope of Internal Audit Work within MMDAs. The objectives and purpose of internal audit units at MMDAs level must be without ambiguity and this have been emphasized in section 110 of the Audit Agency Standards. Responsibilities must be clearly delineated to avoid interference and promote effectiveness.

3. Adequacy of Internal Audit Unit Resources to execute responsibilities. Roles of internal audit units cannot be attained without adequate resources to work with. In view of this, section 210 (6) of the Internal Audit Agency Standards admonished heads of covered entities (MMDAs) to adequately resource internal audit units to ensure their effectiveness.

4. Internal Audit Report and level of implementation. Another critical factor to ensure IA role in MMDAs is communication of findings and the extent of implementing the recommendations in those reports. In line with this, section 16 of the Internal Audit Agency Act, 2003 and the Local Governance Act, 2016 tasked internal audit units to meet and report on quarterly basis to appropriate authorities. This measures the role of an internal audit unit.

5. Professional Competence of Internal Audit Unit. The level of influence professional competence has on the roles of internal audit functions cannot be overemphasized. Ghana Internal Audit Agency Standard section 500 required staffing of competent personnel in internal audit office and frequent capacity building.

6. Internal Audit Unit providing Assurance and Consultancy Services. Aside the routine compliance work carried out by internal audit units in the various



MMDAs, highly competent audit staff go beyond to provide consultancy and assurance services to the organization. Sections 500 and 720 (1) of IAA Standards explains this further and its impacts on roles.

7. Status of IA in the Entity and relationship with management. The status of internal audit in an organizational set up also determines its roles. That is, whether IA is establish as a unit or a department and the kind of influence the officer in charge has as management staff. In the MMDAs set up, IA is a unit and the study would like to assess its influence on the overall roles.

8. Audit Committee Existence and Competence. The existence, functionality and competence of audit committee determine roles of internal audit unit in an organization. The audit Service Act, 2000 (Act, 584) section 30 and the Local Governance Act, 2016 (Act 936) made provisions for the establishment of audit committees and their functions. This is aimed at promoting roles of auditing practice in Ghana. In view of this, roles of internal audit in MMDAs revenue mobilization can be properly conceptualized using these eight (8) critical factors. Figure2 show the diagrammatic exposition of the conceptual framework.

### **Revenue Mobilization**

In simple terms, revenue is income that a company receives from its normal business activities, usually from the sale of goods and services to customers. The US Department of the Treasury (2006) states that for non-profit organizations, annual revenue may be referred to as gross receipts. This revenue includes donations from individuals and corporations, support from government agencies, income from activities related to the organization's

mission, and income from fundraising activities, membership dues, and financial investments such as stock shares in companies.

Sound revenue system for local governments is an essential precondition for the success of fiscal decentralization. Akpa (2008) observes that revenue is a necessary tool for the effective functioning of any government machinery which guarantees survival of government agencies. Gupta and Bhatia (2016) on the other hand, posit that tax is a compulsory levy and that taxpayers are under obligation to pay the sums irrespective of any corresponding return of services or goods. Furtherance to Akpa's position, Thies (2010) and Salami (2011) indicate that taxation is the primary mechanism of revenue mobilization for governments while Portillo and Block (2012) add further that taxes are coercive in nature and are an involuntary trade of a taxpayer's resources, for public goods or services.

In a more comprehensive stance, Adu-Gyamfi (2014) defined revenue mobilization as the act of marshaling, assembling, and organizing financial contributions from all incomes accruing from identifiable sources in an economic setting. Scott (2016) identified revenue mobilization as one of the six key sub components of public financial management, and indicates that; planning/budgeting, revenue mobilization, expenditure/payment, financial/accounting reporting, auditing and PFM regulatory framework practices exist as a system of inter-related elements which has the tendency to impact or influence each other and consequently, service delivery.

Despite the overriding importance of the need for revenue, decentralized authorities contend with limited internal revenue generation, remaining overwhelmingly dependent on central government for its financial

resources (Rakner, 2001). Given the limited internal revenue raising ability.

Bird and Slack (2010) argued that sound revenue mobilization practices for decentralized government units are an essential pre-condition for the success of fiscal decentralization. The decentralized units therefore need to carefully implement practical and revenue generation mechanisms which are acceptable to the residents (Finch, 2015).

In general, there are two main categories of revenue for decentralized government units in Africa –internally generated revenues and external transfers. Own revenue or internally generated revenue includes taxes, user fees, property rates and various licenses (Smoke, 2001). However, such local taxation is limited, according to Nkrumah (2000) who contended that the lucrative tax fields for example, income tax, sales tax, import and export duties, all belong to the central government while local governments have access only to low yielding (Fjeldstad, *et al.*, 2014) explained that some taxes and fees are collected by the government and channeled back to the local government. For instance, in Malawi non-tax revenue such as passport fees are collected by the central government and then redistributed to local authorities using a formula approved by the cabinet.

There are also the cases where collection of many local government revenue sources has been outsourced in recent years, citing Tanzania. They include private collection of property taxes in some urban councils. There are also cases where revenue collection is outsourced to a range of different types of agents within the local authority as in the case Dar es Salam, Mwanza and Moshi local authorities in Tanzania. In Dar es Salam, parking fees collection was outsourced to Ubungu Bus Service; in Mwanza the collection of fish

market fees was outsourced to a fish dealer organization and in Moshi a coffee cooperative collected taxes on agricultural products in the region (Mrutu & Mganga, 2016).

A widely found feature in decentralized internal revenue mobilization practices is the huge number of revenue instruments used by local authorities (Fjeldstad & Semboja, 2000). Local governments seem to raise whatever taxes, fees, and charges they can, often without worrying about the economic distortions and distribution effects that these taxation instruments may create. Bardhan and Mookherjee (2002) argued that a complicated local government revenue system is costly to administer and can lead to corruption and mismanagement. Moreover, many local taxes distort resource allocation decisions, and inhibit the start-up of new enterprises and the achievement of economic growth (Fjeldstad & Therkildsen, 2014; Misch Koh & Paustian, 2011).

Decentralized units also get revenue through external transfers from the central or regional levels, usually in the form of grants and mandatory revenue sharing arrangements (Bahl, 1999). African governments have established various formula for revenue sharing systems to ensure that central resource allocation decisions are unaffected by political considerations (Bahl & Smoke 2003). Ghana is a pioneer in its formula-based system of financial transfers for local development from the central government through the District Assemblies Common Fund (DACF) established in 1994 whereas South Africa's Local Government Equitable Share was established in 1997 (Chitiga-Mabugu & Monkam, 2013).

## Legal Framework for Public Sector Auditing in Ghana

Economic Recovery Programme (ERP) in 1983 aimed at achieving good governance and efficiency brought a lot of reforms in Ghana public sector. Prior to the year 2000, Ghana was without a legislative instrument to operationalize public sector auditing enshrined in the 1992 constitution of Ghana until the establishment of Audit Service Act, 2000 (Act 584). The act delineated the membership structure, their roles, responsibilities and functions of the service in general. The prime objective of this milestone was to promote good governance, effectiveness, efficiency, detection of irregularities in financial transactions and responsive service delivery in the public sector (Simpson, 2013). Though, Article 187 (2) of the 1992 constitution of Ghana clearly mandates the auditing of public institutions but lacks operational guidelines.

In view of this, the establishment of Audit Service was a breakthrough for Ghana. This was soon followed by the establishment of the Internal Audit Agency (IAA) Act, 2003 (Act 658) which mandates every public institution and covered entities to have Internal Audit (IA) Units. Nevertheless, the roles of IA emerge strongly in the late 1990s as result of corporate scandals that faced the UK and US and Asia financial crunches. Since then, Ghana public sector auditing has received several face lifts which includes, Internal Audit Agency of Ghana (IAAG) Standards, 2006 and Internal Auditors practice manual, 2007 to guide auditors in promoting best international standards. Asare (2009) opines that, IA ensures unprejudiced risk assessment and internal controls that promotes judicious use of scarce resources.

## **Legal Framework for establishing Internal Audit Unit in MMDAs in Ghana**

The thrust of decentralization in Ghana is to promote good governance and efficient service delivery that meets the aspirations of the constituents. Internal Audit Agency Act, 2003 (Act 658) enjoins all covered entities including Metropolitan, Municipal and District Assemblies (MMDAs) to establish IA units to promote good governance. Kudo (2017) argues that, IA units at the various MMDAs provide strong internal controls which lead to effective and efficient resource mobilization and service delivery. Aside this, the Public Financial Management Act, 2016 (Act, 921), section 83 (1) mandates Metropolitan, Municipal and District Assemblies to establish Internal Audit units to provide internal controls, risk assessment and good governance. Furthermore, the Local Governance Act, 2016 (Act, 936), section 175 enjoins all MMDAs to establish internal audit units so as to ensure strong internal controls. The last but not the least on MMDAs internal audit units legal framework in Ghana is the Public Financial Management Regulations, 2019 (LI 2378) section 219. The above legal frameworks duly established internal audit units in the various MMDAs and functions to be carried out.

### **Internal Auditing**

Asare (2009) asserts that the modern concept of internal auditing can be identified as involving the evaluation and improvement of risk management, control and governance processes. Risk management, control and governance encompass the policy and procedures established to ensure the achievement of objectives and include the appropriate assessment of risk, the reliability of internal and external reporting and accountability processes,

compliance with applicable laws and regulations and compliance with the behavioral and ethical standards set for an organization and its employees. Risk management relates to the activities and actions taken to ensure that an organization is conscious of the risks it faces, makes informed decisions in managing these risks, and identifies and harnesses potential opportunities. Control includes all the policies and procedures put in place by management; aimed at promoting accountability of resources while governance relates to the means by which goals are established and accomplished by ensuring creditability, equitable provision of services, assurance of appropriate behavior and reduction in the risk of corruption (IIA, 2006).

#### **Role of Internal Audit in MMDAs**

The role and significance of internal audit in MMDAs especially, the areas of service delivery and resource mobilization cannot be over emphasized. In consonance with the “three pillars’ functions espoused by Internal Audit Agency, risk management, controls and good governance, IA plays varied critical roles in the execution of MMDAs core functions in Ghana. This includes resource mobilization and utilization. From the Local Governance Act, 2016 (Act 936), the Public Financial Management Act, 2016 (Act 921) and Internal Audit Agency Act, 2003 (Act 658) the following are the functions stipulated for internal audit units at the MMDAs.

1. To appraise and give report on the dependability and application of internal control systems.
2. To make necessary observations regarding financial affairs.
3. To appraise the effectiveness of risk management and good governance processes.

4. To give assurance on the efficiency, effectiveness and economy in the administration of programmes and operations.
5. To evaluate compliance of MMDAs with procedures, policies, systems, enactments and standards.

In line with the above, IA unit daily activities cut across the broad spectrum of all the five functions. To this end, they perform the following;

- Ensure that revenue collectors make available their General Counterfoil Receipts books available for auditing.
- Ensure that financial records keeping by revenue collectors are in good standard.
- Embark on regular field monitoring exercise to check on revenue mobilization activities.
- Ensure that management bond revenue collectors to minimize risk.
- Ensure that daily banking of monies collected by revenue collectors is adhered to.
- Assess and advice management to enforcement Assembly's by-laws.

Onumah and Krah (2012) opines that, IA in public institutions has become imperative if good governance and efficient service delivery is to be ensured.

In Ghana Metropolitan, Municipal and District Assemblies (MMDAs) are partners to the central government in the national development and as partners they are required to generate enough Internal Generated Funds (IGFs) to enable them carry out development projects. The revenue generated internally is used to support the statutory District Assemblies Common Fund (DACF) to provide infrastructural development and services to the people. It is the responsibility of MMDAs to provide municipal and other services as well



as maintaining law and order, all which require enough financial capital and internal revenue mobilization is therefore paramount.

According to Simpson (2013) and Ahmad (2015) internal audit effectiveness is referred to as the achievement of organizational goals and objectives related to audit practices. On the other hand, Dittenhofer (2001) opines that, attainment of objectives and goals by employing the factor methods designated for measuring such achievement is termed as effectiveness. Ridley (2008) opines that, IA functions and performance can be generally evaluated looking efficiency, economy and effectiveness referred to as “3Es”. Lenz and Hahn (2015) argues that, the issue of economy and efficiency means nothing if the IA functions fail to achieve the set targets. From the above literature, it is clear that IA ability to make impact and achieve its objectives depends largely on how effective the unit is perceived. Notwithstanding this, environmental factors, institutional set up and motivation also plays critical role internal audit effectiveness.

### **Internal Audit Structure in the Public Revenue Mobilisation**

There is consensus in literature that internal audit requires independence and objectivity to function properly in an entity, and therefore it is critical that public sector internal audit function is configured and positioned appropriately within the entity. The size and complexity of the public sector have influenced the diverse forms of internal audit organizational arrangements and service-delivery approaches. Again, the literature suggests three key principles that interplay in the internal audit configuration in the public sector, namely ‘internality’ (Diamond, 2002), ownership (Van Gansberghe, 2005) and the organisational profile or status (Mihret & Yismaw,

2007). Internality of the internal audit process ensures that internal audit function is integrated in the management of the entity to the extent that the internal auditor is seen as one of them rather than a ‘spy’ of the controlling entity.

Management should own internal audit as its own creation for its own benefit since management is primarily responsible for instituting effective internal control within the entity. Without the principle of ownership, management is unlikely to support the internal audit function within the entity. The principle of organisational profile of status requires that internal audit function of an entity should be given a sufficient high status in the organisational structure to enable better communication with senior management and to ensure independence of internal audit from the auditees.

Internal audit structure in the public sector may be broadly classified as either centralised or decentralized model, but the possibility of a mixed model is not ruled out. Diamond (2002, p. 10) states: In the centralized model the Ministry of Finance not only plays a key role in budgeting and allocating funds to line ministries, but also directly intervenes in ex-ante control, placing its own staff in the line ministries. In the more decentralized approach, each line ministry takes full responsibility for spending its own budget and for ensuring appropriate checks and safeguards on the way this is spent.

Asare (2009) in his assessment of the current international practices in selected countries identified five main configurations of internal audit.

The first is an arrangement in which internal audit is placed under the supervision of the accountant-general’s office. Swaziland and Tanzania were found to adopt this model, but the risk they face is that an officer performing

accounting duties may subsequently be required to perform internal audit duties soon after performing accounting duties in the same or related department. The second model is associated with Kenya, Botswana,

Uganda and Zambia where internal audit is supervised by a director at the ministry responsible for finance. The major problem here is that internal audit would lack internality because the internal auditors are not employees of the department; however, it secures higher level of independence for internal audit. In Ghana and South Africa, for example, the third model is applied where internal audit is configured as integral part of the departments and the internal auditors are employees of the respective entities they work for and report to a level appropriate for taking action on internal audit recommendations. In this arrangement, independence and quality assurance is secured by establishing an oversight agency to coordinate, facilitate and promote audit quality within the entire public sector; an example is the established Internal Audit Agency of Ghana. In the fourth model, internal audit is a function of the Supreme Audit Institution (SAI) where the internal auditors, regardless of the department they work, report to the auditor general and are subjected to the professional, technical guidance and supervision from only the SAI. Ghana, like many other countries, has shifted away from the practice of combining internal and external audit function under the same institution. The last model is found in Malta, where the internal audit function acts as a centralised independent agency and operates under the responsibility of the cabinet office. It provides assurance of proper internal controls and procedures in the entire public sector.

## **How Metropolitan, Municipal and District Assemblies Generate their Revenue**

This section explains components of Internally Generated Fund (IGF) for Metropolitan, Municipal and District Assemblies in Ghana. Sources and powers mandating MMDAs to mobilize IGF is enshrined in the Local governance Act, 2016 (Act 936). The Act identified rates, lands, fees, fines, licenses, rent, and investments income as the main sources of IGF revenue to MMDAs.

### **Rates**

This constitutes property rates, basic rates and special rates. Property rates or income are normally levied on all movable and immovable properties within the geographical jurisdiction of the local authority, while basic rate is paid by every resident adult population aged 18 years and above. A special rate can also be levied on residents within a particular catchment area if they demand a special service or facility from the Assembly. Property rates forms a major chunk of total internal revenue sources for MMDAs. However, the collection of these rates is nothing to write home about though touted as low hanging fruits. According to Yeboah and Johanson (2010), this challenge is not peculiar to Ghana but many developing countries.

### **Licenses**

Revenue from licenses are levies on economic activities within the geographical jurisdiction of the local authority. These are business operating permits (BOP) that allows an individual to undertake an economic activity within the district. It constitutes a substantial portion of assembly's internally generated funds and is used for service provision to the constituents. Licenses

are often paid annually but on special cases where instant affordability is a problem, arrangement can be made for it to be paid in instalment to allow the economic agent some fiscal space. This arrangement however, increases the operational cost of local authorities. According to Kelly (2001), the study in Malawi (West Africa) on internal revenue mobilization challenges revealed that, all the juicy licenses are collected by the central government. The smaller businesses are licensed by the local authorities and this denies the Assemblies of huge internal revenue needed for developmental projects to improve the living standards of the local constituents.

#### **Fees, fines and rents**

Fees comprises the daily tolls paid by those who use the services and facilities provided by the Assembly and permit fees that allows an individual or organization to undertake any developmental project within the District. Collections from markets, lorry parks etc. forms the daily tolls while building permit fees constitute development fees. Fines on the other hand, are paid by residents who violate the Assembly's bye laws. Rents are also cash inflows to the Assembly from the use of properties and assets of the Assembly.

#### **Empirical Review**

Kudo (2017) sought to know the role of internal audit units in public sector focusing on selected MMDAs and MDAs in the country. The study adopted 8 pointer star models to conceptualize effectiveness of internal audit units. The study was purely qualitative and thus, reviewed existing empirical literature, laws, regulations and professional standards on internal auditing both in Ghana and outside Ghana. Among the documents reviewed were, Ghana Audit Service Decree 1972 (NRCD 49), 1992 Constitution of Ghana,

Audit Service Act, 2000 (Act 584), Local Governance Act, 2016 (Act 936), Internal Audit Agency Act 2003 (Act 658), Internal Audit Agency of Ghana (IAAG) Standards 2006 and Internal Audit Agency Manual, 2007. The study found that, there exist enough legal provisions to promote effectiveness of internal audit units in the various MMDAs. Findings further indicate that, the eight factors identified play a critical role in ensuring IAU effectiveness in the MDAs and MMDAs. It was recommended that, MMDAs and MDAs should adopt the eight factors so as to promote healthy organization.

Scott (2017) evaluated the role of Auditing Practices in Service delivery in MMDAs. The study sampled 34 MMDAs out of the 170 existing as at 2008. A mixed model approach was adopted by the study where quantitative and qualitative analysis on auditing practices in MMDAs in Ghana was analyzed. The study further employed purposive sampling technique to select 612 respondents from the 34 MMDAs, 1020 rate payers, 28 regional officers and 20 focus group discussions. Findings of the study revealed that, auditing practices impacts positively on services delivery. However, citizens rated service delivery by MMDAs as poor while the officials from MMDAs held the opposite view. It was recommended that, MMDAs should strengthen auditing practice, capacity of Internal Auditors (IA) should be built, ensure strict enforcement of audit reports recommendations and finally MMDAs should strengthen audit implementation committees.

Abdullah, Faudziah and Ebrahim, (2014) sought to know the effect of the internal audit on firm performance. The methodology employed was mainly qualitative analysis and was underpin by Agency and Resource

Dependency theories. Characteristics such as IA experience, qualification and size were employed by the researcher to achieve the study objectives. Findings from the study showed that, experience of internal audit, qualification of IA personnel and size of IAU impacts positively on firm performance. Second objective the study was to ascertain the relationships that exist between audit committees and firm performance. To this, the study found that, existing and functioning audit committees impacts positively on the Krachi Nchumuru District Assembly.

Sigila (2017) evaluated the effects of internal controls on revenue collection among five hospitals in Nakuru, Kenya. The study employed both qualitative and quantitative analytical techniques to achieve the study objective. Primary data was sourced using a well-structured data collection questionnaire with a sample size of 40. Officers working in the hospital. Correlation analysis was used to ascertain the relationship between controlled environment and revenue collection. The study found that, controlled environment have no significant influence on revenue collection in Nukuru level five hospital in Kenya.

A study by Tatjana and Bernardka (2017) investigated into the impact of internal auditing on financial planning in public educational institutions in Slovenia. The study employed a chi-square test to evaluate the hypothesis that internal audit affects on the legally adequacy of the financial plan. A sample of 148 out of 451 public primary schools was selected for the survey. The study examined the correlation between number of audits and legally adequacy of primary school financial plan. Findings revealed that, there is relationship between the two variables. The chi-square test produced a result of 1.86 with a

probability value of 0.395 indicating insignificance. The study also found that, consistent reviewing of compliance by organizations is not regularly being practiced by internal auditors. The study further recommended that, internal auditors should design and implement verifying procedures to ensure the correctness of legally adequacy contents in financial plan.

Awdat (2015) sought to know the impact of the internal audit function on financial performance of local government in Jordan. The study used four factors to examine the impact of internal audit function on financial performance. This includes; quality and management of internal audit departments, ability to develop and evaluate audit risk management. Primary data was elicited through questionnaire with a sample size of 65 internal auditors in the commercial banks. Descriptive analysis was carried out using SPSS software. Findings of the study revealed that, internal auditors in Jordan commercial banks take interest in quality internal audit work, management audit activities and assess the risk involve in internal audit process.

Oates (2010) while emphasizing the importance of revenue mobilization in decentralized units argues that, apart from raising revenues, localized revenue mobilization has the potential to foster political and administrative accountability by empowering the communities. In turn Baumann (2009) notes that successful decentralization needs to give scope and resources for the contribution to development by all actors. Like Baumann (2009) and Oyugi (2009) points out that in many countries, the decentralized governments act as a tier of government requiring adequate finances to enable them cope with numerous developmental activities within their jurisdiction.



A study by Banerjee, Duflo, Imbert, Matthew and Pande (2016) on solving leakages of revenue at the public sector. The aim of the study was to identify the channels that helps reduce the rate of revenue leakages at the municipalities in India. Meanwhile, their main objective was to evaluate whether transparency in fiscal transfer systems can increase accountability and reduce leakages in revenue mobilisation. The channels identified included electronic fund-flow, administrative tiers cutoff and the basis of transfer of funds switched from forecasts to documented expenditure. In addressing revenue leakages in Nigeria, Eme, Chuchuwrah and Iheanacho (2015) suggested that the quality of revenue information system to determine the accurate number of eligible revenue payers should be improved, enforcement of penalties for revenue invasion and to strengthen revenue audits and government to encourage international collaboration to combat illicit outflow of funds from the districts and the country at large.

### **Conceptual Framework**

Following from the literature reviewed, the conceptual framework was designed based on Matthew (2017). The concepts were developed from the theories and are presented in Figure 1 below.

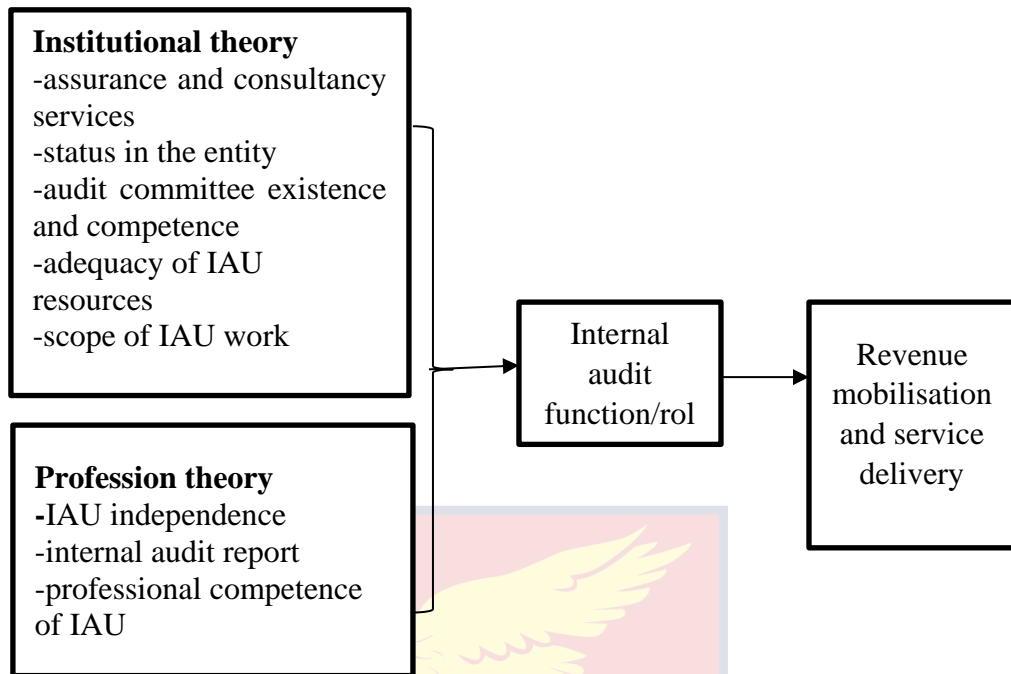


Figure 1: Conceptual Framework

Source: Matthew (2017)

### Chapter Summary

Internal audit units are critical in curbing revenue leakages in government institutions. Their function cannot be underestimated in terms of the role they play in revenue mobilisation as spelt out in the Internal Audit Agency Act. This chapter focused on reviewing internal audit based on the research objectives. Empirical review was done on the roles of internal audit and their effectiveness on revenue mobilisation leakages. Different perspectives of different scholars and researchers were presented so as to establish what had already been done that was relevant for the study. On both theoretical and empirical side, the literature revealed that sources of funds for the MMDAs include rates, licenses, fees, fines and rents. Qualitative studies on evaluating the sources of revenue and the role internal audit play in curbing revenue mobilisation.

## CHAPTER THREE

### RESEARCH METHODS

#### Introduction

This chapter presents the research methods adopted for the study. The first part highlights the design of the study followed by the approach and data sources. The remaining chronological order include, target population, sampling technique, and data collection methods. The chapter also explains data management and analysis techniques, format of presentation and ethical considerations. Background of the study area has also been reviewed.

#### Research Design

Research design explains how a study is organized to achieve the stated objectives. Neuman (2007) explained research design to mean the strategy adopted to integrate the different constituents of a dissertation in a cohesive and coherent manner. Basically, the design aimed at achieving a defined set of research questions. To this end, the study embraced a phenomenology study design. Phenomenology is a study that aims to understand the subjective, lived experiences and perspectives of participants. This is based on the main idea that there are multiple interpretations of the same experience and these multiple interpretations or meanings make up of reality. This approach involves long and intensive interview sessions with various participants in order to gather information about unique individual experiences which offer a rich description of human experiences. Leedy and Ormrod (2005) further opined that phenomenology researches do not involve modifying the status quo of issues under investigation. Taken into perspective

the study objectives outlined in chapter one, descriptive phenomenology has been adopted to achieve the stated study objectives.

Research approach highlights on the step-by-step techniques of solving a problem at hand and this step-by-step is embedded in the method adopted for analysis (Neuman, 2007). The investigator used a combination of qualitative approach to answer the research questions. This research approach is known to allow the researcher to observe and analyze the data gathered from interviews (Babbie and Mourtton, 2006). Qualitative research puts emphasis on how individual perceives and interprets the social reality. In view of this, the study employed qualitative approach to obtain results which reflect the reality on the ground. In line with this, the study designed interview questions on the research objectives.

### **Population**

Population refers to the whole subject of interest from which the studies identify and select a few through appropriate sampling methods (Yin, 2009). The target population for the topic under review is 46 staff in the Krachi Nchumuru District Assembly (Krachi District Assembly Database, 2019). The respondents were selected in line with the objectives of the study as well as their knowledge and experience in auditing and revenue mobilization activities.

### **Census**

Census however is the use of all the respondents of the population. Yin (2009) argued census as the selected elements of a population for deeper investigation, observation and analysis. The overall population size for the study consisted of staff from audit, finance, budget, planning and

administration. Financial resource constraint, staff strength and knowledge on the topic under review influenced the census of the population size.

### Study Area

The Assembly aspires to be the best in good governance, provision of infrastructural development and the creation of an enabling environment for private sector development. The Krachi Nchumuru District Assembly exist to ensure the efficient mobilization and utilization of financial and human resources for the overall development of the District and working in partnership with all stakeholders in the provision of basic socio-economic infrastructure to the wellbeing of the people.

The District is located at the North Western corner of the Oti Region of Ghana and lies between Latitude  $7^{\circ} 4''$  N and  $8^{\circ} 25'$  N Longitude  $0^{\circ} 25'$  W and  $0^{\circ} 20'$  E. It is bounded to the South East by Krachi West, Krachi East Districts to the East, Sene East District to the South West and Kpandia District to the North. It has a total surface area of 2,969 sqkm and one hundred and Twenty-six (126) settlements, with water covering about 15%. The major settlements include the following: Chinderi, Banda, Boraе, Bejamse, and Akaniem. The District can therefore take advantage of its strategic location to attract investments from both Southern and Northern Ghana. Being strategically located in the transitional zone, the District's closeness to the Bono and Northern Regions makes it a potential avenue for wealth creation through greater internal trade and positive socio-cultural exchanges between the districts in these regions.

The total District population is 72,688 for both sexes and all ages with more males (36,649) than females (36,039). The district has a relatively rural

population of 57,760 than urban population of 14,928 and a sex ratio of 101.7. The District has a youthful population. This is shown by a greater percentage of the population being between the age range of (0-24) years and a high age dependency ratio of 97.1. The dependency ratio is even higher in the urban areas (99.8%) than in the rural areas (96.5%).

It is not surprising however to notice from table 2.1 that there are more females than males between the ages of 20-44 years and 60-69 years in the district.

Majority of the people in the district are engaged in agriculture with the commercial and industrial sectors least developed. About 20% of the population accounts for almost 75% of the total expenditure of the district and these are found in the urban areas. It means that incomes are not equitably distributed and there is a wide discrepancy between rural and urban incomes. Agriculture accounts for about (78.8%) of the District labour force (that is employed population 15 years and older), Commerce account for about (9.7%), while manufacturing and other sectors account for about (11.5%). The main crops grown in the District include yam, cassava, maize, rice, and groundnut. Fishing is an important agricultural activity in the District because of the presence of the Oti River and its tributaries and the Volta Lake.

#### **Data type and sources**

The study employs primary and secondary data. Primary data was sourced from direct interviews with selected staff including all internal audit staff in Krachi Nchumuru District Assembly. Expert opinion from selected experts or practitioners in auditing field had also been interviewed to enrich on the topic under review. Secondary data was, sourced from Krachi Nchumuru

District Assembly composite budget, annual financial documents, internet sources and academic journals. Findings and conclusion of the study were based on the analysis of these data sources.

### **Data Collection Instrument**

The study used interviews to elicit information from respondents. The interview contained structured questions. The questions sought for specific answers from respondents while seek for expert opinion from respondents. The combination aided in correcting the lapses made in the interview questions and therefore, ensured accuracy and reliability of the data (Yin, 2009). The interview was constructed in a structured way such that, enough information was obtained from the internal auditors.

### **Data Collection Procedure**

The first step was to arrive at a clear, precise and exact definition of the variables of the study. The researcher needed to operationlised them. In other words, the researcher identified specific behaviours which could provide acceptable evidence for describing them. Secondary source such as journals and annual reports were used in the data collection process. Information was gathered and noted down for analysis according to the research questions. Then, interview was conducted at the study area. Before the interview was conducted, the researcher notified the municipal about the intentions of the research. The purpose of the interview was to obtain information by actually talking to the internal auditors and other relevant stakeholders. The interviews were personalized and therefore permit a level of in-depth information gathering, free response and flexibility. After the interview, data collected was

analysed with the ones obtained through secondary sources using content analysis.

### **Data Processing and Analysis**

From the field, data was retrieved, edited and coded to aid in correction of anomalies. Thereafter, it was captured into Statistical Package for Social Sciences (SPSS) version 23 for analysis. Content analysis was employed to generate meaning from the raw data gathered from the field. In the content analysis, relevant information were noted down. These information were glanced through and categorised according to the study objectives. The researcher compared and contrasted the major and minor categories and each were examined in detail. After, these categories were reviewed to ascertain which ones can be merged to make meaningful results. Results of the analysis are discussed in the next chapter of the write up. The study also presented direct quotation of responses from respondents to validate and also enriched the results. Qualitative data analyzed was targeted at interpreting the volume of text data gathered from the field. This research method was adopted as an analytical tool because of its ability to make reasonable extrapolations.

### **Ethical Considerations**

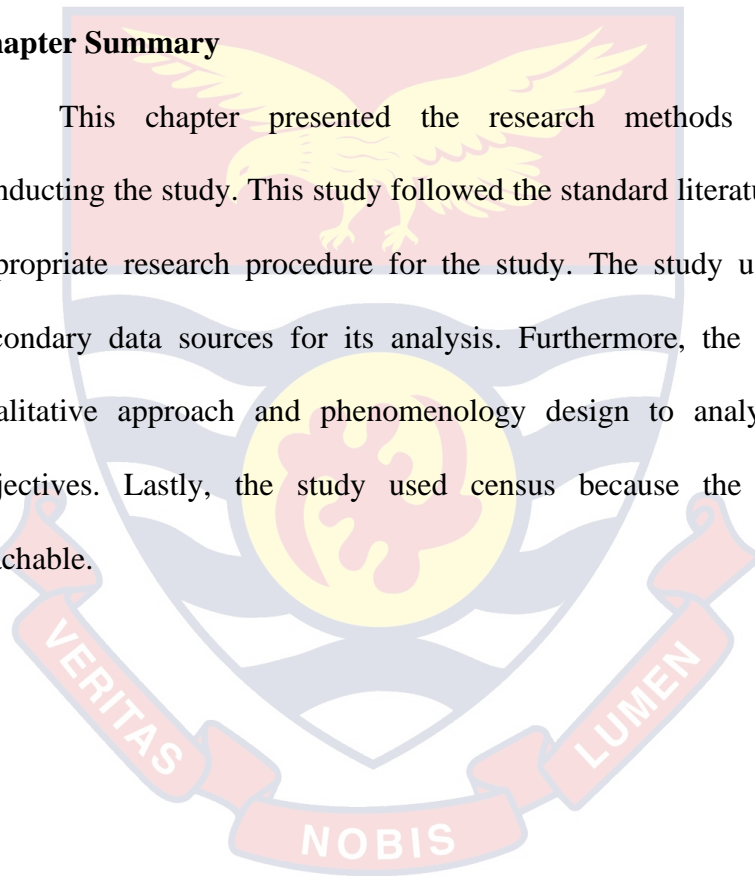
Ethical issues in research remain essential and rightly fit into this study. Ethical behavior in research refers to the aptness of the researcher's attitude in relation to the rights of respondents (Saunders, 2007). Ethics had also been defined by Yin (2009) as, the application of moral principles to protect and respect the rights of respondents. Respondents were also allowed to withdraw at any stage of the interviewing process if so wish.



Aside these, the first part of the data collection instrument assured participants of the confidentiality and anonymity of their inputs. Furthermore, the investigator explained to each participant the purpose of the interviews. The values and norms of Krachi Nchumuru District Assembly were also observed and respected. Finally, works which did not originate from the researcher were duly acknowledge in the main text and also placed at the referenced page.

### **Chapter Summary**

This chapter presented the research methods appropriate for conducting the study. This study followed the standard literature to present the appropriate research procedure for the study. The study used primary and secondary data sources for its analysis. Furthermore, the study adopted a qualitative approach and phenomenology design to analyse the research objectives. Lastly, the study used census because the population was reachable.



## CHAPTER FOUR

### RESULTS AND DISCUSSION

#### **Introduction**

Chapter four presents findings from the analysis of data gathered from the survey and interviews which comprises primary and secondary data. The research employed a qualitative method approach using interviews as the instrument to collect the data for the analysis. A total of forty-six (46) staffs were interviewed. Findings from the study are presented below.

#### **Role of Internal Audit Unit in Revenue Mobilization**

Objective one was analysed and observed through interviews. The following results on objective are presented below.

#### **Internal audit unit providing assurance and consultancy services**

The essential factor that determines effective role of IA in resource mobilization in MMDAs is its ability to go beyond the compliance routine work and offer consultancy services to the organization. According to IAA Standards sections 500 and 720 (2), a competent, effective and qualified Internal Audit Unit as describe in these sections should be in a good position to offer other important services needed by the organization aside the routine compliance audit work. Again, according to IAA Act, 2003 (Act 486), internal auditors are required to perform risk assessment of internal controls systems and also ensure good governance practices in MMDAs. In line with these provisions, the study sought to know if the internal audit unit in Krachi Nchumuru District Assembly is able to offer assurance and consultancy services to the MMDA.

Another salient area that needs much attention and recognition to ensure prudent revenue mobilization role by Internal Audit at the various MMDAs is the independence of internal audit units. All efforts aimed at improving the effectiveness of internal audit for prudent resource mobilization and protection of public resources will be a mirage if internal auditors have interest in the vary things they audit. According to Ghana Internal Audit Agency Standards section 200, an internal audit unit must be completely independent of the activities being audited so as to perform its obligations with an unbiased and effective professional judgement as well as the recommendations being made. The standards further opines that, internal audit unit should abstain itself from exercising or performing executive responsibilities. This is to ensure the independence of internal audit unit and promote effective resource mobilization. In view of this, the study sought to know from the internal auditor if the internal audit unit has the stipulated independence. The following was the response of the internal auditor;

*“The coming into force of the Public financial Management Act, 2016 (Act 921) specifically, sections 86-88 further strengthened the independence of internal audit unit by replacing Audit Report Implementation Committee (ARIC) with Audit Committee which has majority of the members being outsiders or independent. Formally with ARIC, the presiding member was the chairperson but currently an independent person chairs the audit committee and see to it that, all recommendations in the internal Auditor’s report and that of Auditor General’s management letters are fully implemented”.*

However, submitted that complete independence of internal audit units cannot be attained due to the District Assembly setup couple with human

factors. The study further tasked the internal auditor to rank independence of the internal audit unit on scale 0-100 percent. To this end, he scored the Assembly 70-75% but was quick to add that, the problem of internal audit independence cut across all MMDAs in Ghana.

As mentioned earlier in chapter three of this study, a holistic assessment of internal audit role and effectiveness on revenue mobilization cannot be attained if the status, relationship and recognition of IA in MMDAs is not examined. Both the Local Governance Act, 2016 (Act 936) and the Public Financial Management Act (Act 921) advocates for the establishment of an internal audit unit and not a department. The study found that, the status and recognition of IA at MMDAs level as a Unit and not a department and therefore, IA cannot perform the functions of a department. The study sought to know if this has any implication on internal audit role and effectiveness and the following was the response obtained from the internal auditor.

*“Yes, this has effect on our operations because it does not permit enough resource allocation during budget preparation. With the current organizational structure, Internal Audit is unit under central administration”.*

#### **Scope of internal audit unit work**

The scope and limit of internal audit work is a significant factor in determining its effective role in revenue mobilization. To avoid this confusion and throw more light on the authority, responsibilities and functions of Internal Audit units, Internal Audit Agency Act, 2003 (Act 456) tasked the Governing Body of Internal Audit Agency to come out with uniform procedures, schedules and standards to guide internal auditors in the discharge of their responsibilities. Furthermore, Ghana Audit Agency standard (2006)

section 110 called on the Governing Body and MMDAs heads to clearly define and delineate IA functions to be in line with those prescribed by internal Audit Agency. This clarion call finally led to MMDAs Internal Auditors' operational manual which prescribed the scope and limit of IAU at MMDAs level. To this end, the study found that, internal audit unit at the MMDAs are required to perform the following;

- 1 Ensure the safeguarding of the Assembly's assets and interests from losses of all kind, including those arising from fraud, irregularity and corruption.
- 2 Analyze the internal control system of the Assembly and establish a review programme.
- 3 Ensure that, all monies mobilized and in the possession of revenue collectors are properly verified and banked within twenty-four (24) hours.
- 4 Conduct risk assessment and mitigation measures in MMDAs day to day activities.

Again, findings of the study revealed that, scope of IA work at MMDAs level is clearly defined and there is no ambiguity. The study also found that, IA at MMDAs level has a critical role in revenue mobilization especially, the responsibility of curbing leakages.

#### **Role of internal audit unit in curbing revenue leakages**

The study also sought to know from the officers' perspective on the role of IA in terms of curbing revenue mobilization leakages in Krach Nchumuru District. The study found that about 21.4% of the staffs are not satisfied or impressed with the performance of internal audit unit in curbing revenue

leakages while 28.6% indicates they are somehow satisfied. However, 50% of the staff in Krachi Nchumuru District Assembly scored the performance of IA in curbing revenue leakages as being good. This result is in agreement with Mihret and Woldeyohannis (2008)'s findings which suggest that the opinions of both the auditor manager respondents conform to the concept that the internal audit function' performance measures were more appropriate for a traditional/compliance audit focus than to a value-adding audit department.

### **Adequacy of resources for internal audit work**

Adequate resources for internal audit unit day-to-day operations go a long way to determine the effectiveness of IA in prudent revenue mobilization. Heads of covered entities including MMDAs are charged in section 210 (6) of Ghana Internal Audit Agency Standards to ensure that adequate resources are made available to the IAU to carry out their functions effectively without interference. Again, the section also tasked the head of internal audit unit to establish the necessary resources, assistance and skills needed to promote effective and efficient service delivery by the unit. Other personnel in the organization are also admonished to co-operate with IA when necessary in the performance of their duties. The study found that, one principal challenge confronting the internal audit unit in Krachi Nchumuru District Assembly is inadequate resources to work with. This was what the internal auditor said when asked to identify the main challenge of the unit.

*“The main challenge we face as a unit is inadequate logistics for our work though skill development is also important”.*

This negatively affects effective role of internal audit unit in revenue mobilization in Krachi Nchumuru District Assembly. The following were the other challenges confronting the unit.

1. Lack of resources and logistics (vehicle) for monitoring revenue mobilization activities
2. Non-involvement of internal audit unit in project monitoring
3. Delay in banking some of revenues collected by collectors
4. Delays in presenting books and GCR for pre-auditing.

All these militates against the role of internal audit unit in achieving prudent revenue mobilization in MMDAs especially the Krachi Nchumuru District Assembly.

#### **Channel of Revenue leakages in Krachi Nchumuru District Assembly**

The second objective also sought to know the channels of revenue leakages. The study found that participants representing 40% of capacity building for revenue collectors plays an essential role in ensuring prudent revenue mobilization. The study also found that participants representing 33.3% educating or sensitizing citizens on their civic responsibilities as well as how their taxes are put to use goes a long way to promote revenue mobilization. However, 26.7% of participant believed monitoring of revenue mobilization activities of collectors will help reduce revenue mobilization leakages and increase service delivery of the Krachi Nchumuru District Assembly.

#### **Internal Control Strategies and Policies for KNDA**

Central to this study is the third objective of proffering internal control strategies and policies for KNDA. A semi-structured interview with a senior

manager revealed several remedial strategies that have been put in place as well as those to be put in place in the near future. A senior manager revealed that, the units have been staffed with qualified personnel who are regularly taken through continuous professional developments (CPDs) in the form of seminars, workshops and conferences. The aim is to enhance the professional proficiency of the internal auditors. The manager admitted that managers and internal auditors in some organisations find it difficult to work together as partners for several reasons. However, the Agency is currently organising training workshops for both managers and internal auditors in order to ensure that they understand and respect each other's role in the organisation and to learn how to work hand-in-hand as partners in value creation. To promote the professionalism in internal auditing, the Assemble is in the process of liaison with some of the business schools in Ghana to run postgraduate degree programmes in internal auditing. One of the schools earmarked, the Institute of Professional Studies at Accra (Legon-Madina), is currently running the programme.

Another area that the Assemble is working on is the assurance of quality audit services in the MDAs and MMDAs. To this end, according to the senior manager, internal audit standards have been issued by the Assemble to guide the conduct of internal audit in all the MDAs and MMDAs, with the Assembly ensuring that compliance with these standards within the MDAs and MMDAs is enforced. Auditing manuals have been developed while seminars are organized for the internal auditors on regular basis. In addition to this, annual conference is organized by the Assembly to bring all internal auditors in the public sector together to deliberate on technical and professional issues



affecting them. The Assembly is also developing cooperation with other institutions such as The Audit Service and Public Accounts Committee of Parliament to promote the work of internal auditors.

### **Discussion of Key Findings**

The framers of the 1992 Ghana's constitution in the true sense of democracy in chapter 20, Article 240 -256 dealt with Decentralization and Local Government. This is an Administration that brings government and governance closer to the people. The Metropolitan, Municipal and District Assemblies in the constitution was seen as a laboratory of democracy and also the principal agent for advancing the cause of equal opportunity, redistribution of wealth and poverty reduction among other things. It was thus the vehicle for decentralization. Below is the discussion of the major findings of the study.

Firstly, the study discovered that, there exist a functioning audit committee in Krachi Nchumuru District Assembly and they meet at least twice in year. The membership of the audit committee is in line with the composition as stated in section 87 of the Public Financial Management Act, 2016 (Act, 921). The study further found that, the current composition of the audit committee is more solid as compare to the formal Audit Report Implementation Committee (ARIC). This is a good indicator in promoting prudent revenue mobilization since the audit committee plays a critical role in protecting public resources.

Secondly, the study found that, the internal audit unit in Krachi Nchumuru District Assembly does not have the professional competence to provide consultancy and assurance services to the organization. This revelation calls for capacity building for internal audit staff in Krachi

Nchumuru District Assembly since it contravenes the provision in sections 500 and 720 (2) of Internal Audit Agency Standards. This has negative implications for internal audit role in promoting prudent revenue mobilization in the Krachi Nchumuru District Assembly. The reason being that, a competent and well qualified Internal Audit Unit should be able to go beyond the normal routine compliance audit work and provide other critical services needed to engender prudent revenue mobilization. Promoting and ensuring prudent revenue mobilization role by the internal audit unit goes beyond the routine compliance work to include identification of new revenue potentials, investment portfolios, training of revenue collectors on new regulations and revenue mobilization strategies. For instance, the internal audit is required identify and advice management of an organization on an emerging risk in revenue mobilization the unit have identified and propose solutions but this is lacking in Krachi Nchumuru District Assembly.

Thirdly, the study found that, internal audit unit in Krachi Nchumuru District Assembly is under resourced and thus, post a serious challenge to ensuring prudent revenue mobilization drive. For instance, the unit has only one staff manning it and also there is no vehicle or motor bike allocated to the unit for purpose of monitoring revenue mobilization activities by collectors. This has serious negative implications because the District is very large unlike those in the cities means of transport is difficult to come by in those areas. As result of this, revenue collectors keep monies for more than a month which are supposed to be banked within 24 hours. This defeat the role of internal audit in ensuring prudent revenue mobilization.

Fourthly, the study found that, officers and other stakeholders in Krachi Nchumuru District are not satisfied with the performance of internal audit unit in curbing revenue leakages in the system. This failed performance may be partly attributed to the unit being under resourced and also lack of professional competence. This result is not surprising because it is extremely difficult for a single staff to manage audit unit at MMDA level considering the volume of work. The staff strength needs to be increased.

Furthermore, the study discovered that, the independence of internal audit unit and the worked they perform have improved significantly through the promulgation of the Public Financial Management Act, 2016 (Act 921). The replacement of ARIC with Audit Committee and membership structure has ensured the independence of internal audit units. This is a good indicator of ensuring prudent revenue mobilization since most recommendation from the internal audit unit findings regarding revenue will be implemented.

Lastly, the study found that Krachi Nchumuru District Assembly has a youthful staff and if properly managed can lead economic gains to the District. Again, the study discovered that lack of training for revenue collectors, lack of accountability, inadequate logistics, poor public education and sensitization among others contributed immensely to revenue leakages in Krachi Nchumuru District.

## CHAPTER FIVE

### SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

#### Introduction

This chapter presents a summary of the findings, conclusions and policy recommendations for Krachi Nchumuru District Assembly and all MMDAs.

#### Summary

The principal objective of study aims at evaluating the effective role of internal auditing on prudent revenue mobilization in Krachi Nchumuru District Assembly.

The first objective was to assess the role of internal audit in ensuring prudent revenue mobilization in Krachi Nchumuru District. To this end, although the internal audit units in MMDAs play a role in ensuring prudent revenue mobilization, the study discovered that the internal audit unit at this district lack required resources from government and other audit agency that make them more effective. The study further found that, the role and scope of internal auditors stipulated in Internal Auditors' Operational Manual for MMDAs are not fully being implemented which gave opportunity to revenue collectors and other miscreants to milk the system.

The second objective of the study was to identify revenue leakages channels in Krachi Nchumuru District Assembly. The channels include, inability to keep proper records of revenue collections by collectors, non-enforcement of Assembly's bye-laws, lack of accountability and transparency from duty bearers and inadequate logistics and staff for the internal audit unit in Krahi Nchumuru District Assembly. These were the channels identified for

revenue leakages in the system in Krachi Nchumuru District Assembly.

In response to whether Revenue collectors are motivated enough to collect the revenue in Krachi Nchumuru District Assembly the study found that the main reason why the district does not do well in the mobilization of revenue collection is the fact that revenue collectors are not motivated enough to collect the revenue in the district as evident in the responses. Last but not the least, the results indicate that majority agrees to the fact that they have competent staff to collect revenue in Krachi Nchumuru District Assembly.

### **Conclusion**

Findings from this study agrees with existing theoretical and empirical literature that, lack of professional competence in internal audit units at the various MMDAs and well as inadequate resources for internal audit units renders them ineffective in achieving prudent revenue mobilization (Matthew, 2007). Again, findings of the study confirmed that lack of public education and sensitization, poor monitoring exercise, lack of accountability and lack of training for revenue collectors' impacts negatively on prudent revenue mobilization.

Additionally, linking the reviewed 8-star model to findings from the study revealed that, key components in the model have not been fully and properly implemented by management especially the internal audit unit in Krachi Nchumuru District Assembly and therefore, created a lot of opportunities for revenue collectors and tax payers to cheat the system.

It can also be concluded that the performance of revenue collectors is not encouraging enough, reasons ranging from low caliber of revenue staff to poor expenditure control and that, revenue collectors are not also motivated

enough to collect the revenue in the district as evident in the responses even though they have competent staff to collect revenue in Krachi Nchumuru District Assembly.

### **Recommendations**

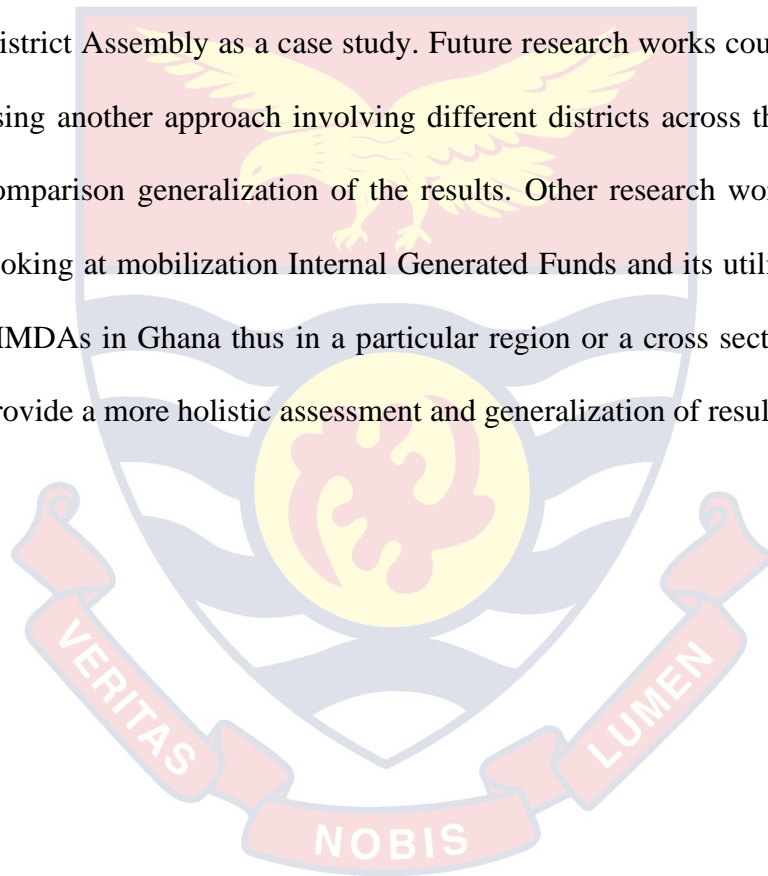
The chief objective of the study aims at evaluating the effective role of internal auditing on prudent revenue mobilization in Krachi Nchumuru District Assembly. The study found multiple channels of leakages and therefore, recommends the following;

1. Internal audit unit of the Krachi Nchumuru District Assembly should be adequately resourced to enable the staff properly execute their responsibilities aimed at ensuring prudent revenue mobilization.
2. Revenue collectors should be trained on revenue mobilization. Building capacity of revenue collector will increase revenue mobilization. Capacity building of revenue collector can be in various forms such as pursuing professional development, organising of workshops and orientation in order to acquire knowledge and skill to increase revenue mobilization of the Krachi Nchumuru District Assembly.
3. Internal audit staff at Krachi Nchumuru should be abreast with the financial laws such as Public Financial Management Act, 2016 (Act 921), Internal Audit Manual and Local Governance Act, 2016 (Act 936) which will enhance prudent revenue mobilization and service delivery at the Krachi Nchumuru District Assembly.
4. Monitoring of revenue collectors is the means of controlling how the revenue collectors are operating. Monitoring can be done daily, weekly

or monthly in order to control and correct the activities of revenue collectors in revenue mobilization which will impact heavily on effective revenue mobilization of the Krachi Nchumuru District Assembly which will bring development to the people of and the communities at large.

### **Suggestion for Future Research**

This study focused on only one District. Thus, Krachi Nchumuru District Assembly as a case study. Future research works could be undertaken using another approach involving different districts across the country to aid comparison generalization of the results. Other research works can focus on looking at mobilization Internal Generated Funds and its utilization in several MMDAs in Ghana thus in a particular region or a cross section of regions to provide a more holistic assessment and generalization of results.



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## APPENDICES

### INTERVIEW

This interview is intended to collect data that will assist the researcher in the study topic **“THE ROLE OF THE INTERNAL AUDIT UNIT IN REVENUE MOBILIZATION AND SERVICE DELIVERY IN THE KRACHI NCHUMURU DISTRICT ASSEMBLY “**. The purpose of this data collection is purely academics and any information provided will be treated in confidentiality. Thank you.

Does the assemble have capacity building programme plans

a) Yes [ ] b) No [ ]

Is it being implemented?

a) Yes [ ] b) No [ ]

If No why?

.....

.....

.....

.....

The professional competence of internal audit unit staff has a direct positive impact on IGF mobilization.

(a) Strongly agree [ ] (b) Agree [ ] (c) Neutral [ ]

In percentage terms, please rank your performance in the following areas

| Measures          | Percentage |
|-------------------|------------|
| Risk Management   |            |
| Internal controls |            |
| Compliance        |            |

How independent is the Internal Audit Unit

.....  
.....  
.....  
.....  
.....

How your section as a unit and not a department does affect the effectiveness of your role?

.....  
.....  
.....  
.....  
.....

Please rating of the relationship between staff, stakeholders and the Internal Audit Unit

- a) Excellent [ ] b) very good [ ] c) poor [ ]

What is the scope of work of the Internal Audit Unit at Krach Nchumuru District?

Do you have adequate resources for internal audit work?

- a) Yes [ ] b) No [ ]

If No, what are the challenges?

.....  
.....  
.....  
.....  
.....

Please rating the Performance of the Internal Audit Unit at Krach Nchumuru District in curbing revenue leakages.

a) Good [ ] b) Somehow satisfactory [ ] c) Not satisfactory [ ]

What are some of the causes of revenue leakages in Krachi Nchumuru District Assembly?

.....  
.....  
.....  
.....  
.....  
.....  
.....  
.....  
.....  
.....

Does the Assembly have adequate revenue sources?

a) Yes [ ] b) No [ ]

Do you know them?

a) Yes [ ] b) No [ ]

If yes, name some of the sources

- i. ....
- ii. ....
- iii. ....
- iv. ....
- v. ....

Do you find revenue collectors performance high?

a) Yes [ ] b) No [ ]

If No then give reasons to your answer

- i. ....
- ii. ....
- iii. ....

Do you think there are some leakages in the revenues collected by the Krachi District Assembly?

.....

.....

.....

.....

.....

What do you think are some of the channels of leakages?

.....

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.....

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Thank you for your participation.