

UNIVERSITY OF CAPE COAST

**THE PRACTICE OF INTERNAL AUDITING IN THE
BANKING INSTITUTIONS IN TAMALE**

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BY

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**DISSERTATION SUBMITTED TO THE ACCOUNTING
AND FINANCE DEPARTMENT, SCHOOL OF BUSINESS,
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FULFILMENT OF THE REQUIREMENT FOR THE
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DEGREE IN ACCOUNTING**

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DECLARATION

Candidate's Declaration

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

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

Name: Mahama, Muntari

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.....

Name: Mr. Augustine Addo

ABSTRACT

A well performing internal audit function is one of the strongest means to the promotion of the good corporate governance system in an organisation. The study was conducted to evaluate the extent to which the internal audit function is positioned to contribute towards one of the major objectives of achieving good corporate governance in the banking institutions in Tamale for accountability and service improvement.

The respondents of the study were drawn from banking institutions in Tamale. The sample included internal auditors, managers, accountants or operations officers, tellers and other bank staff. Both simple random and purposive sampling techniques were used in selecting the sample size for the study. Primary data were sourced by means of questionnaires.

The study revealed that only one branch bank in Tamale had an Internal Audit Department. All other banks in Tamale had their internal audit services performed by the Internal Audit Department at the Head Offices. The independence of the Internal Audit Departments in the banks were quite strong though inadequate funding was a major threat to the provision of quality internal audit services.

It is recommended that internal audit departments be established in the branch banks to make the internal audit function more responsive to the risk exposures of the banks. While ensuring a strict adherence to the standards for the Professional Practice of Internal Auditing, it is recommended that the programme of continuing professional education in the banks be given much attention.

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DEDICATION

This work is dedicated to my mother, Chaawura Mahama Iddrisu Kingsley and his family, my wife, my son and daughter.

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ABBREVIATIONS

AC	Audit Committee
ACCA	Association of Chartered Certified Accountants
AS	Attributes Standards
BOD	Board of Directors
BOG	Bank of Ghana
CEO	Chief Executive Officer
CGAP	Consultative Group to Assist the Poorest
CPA	Certified Public Accountants
GSE	Ghana Stock Exchange
HO	Head Office
HR	Human Resources
IA	Internal Auditor
IAA	Internal Audit Agency
IAD	Internal Audit Department
ICA (G)	Institute of Chartered Accountants (Ghana)
IIA	Institute of Internal Auditors
IT	Information Technology
PNDCL	Provisional National Defence Council Law
PS	Performance Standards
SEC	Securities and Exchange Commission
SIAS	Statement on Internal Auditing Standards

CHAPTER ONE

INTRODUCTION

Background

“An audit is an independent examination of the evidence from which the financial statements of an enterprise are derived, in order to give the reader of those statements confidence as to the ‘truth and fairness’ of the state of affairs which they disclose. The Auditing Practices Board describes the objective of an audit as being ‘... to enable auditors to express an opinion whether the financial statements give a true and fair view ... and have been properly prepared in accordance with applicable reporting framework’” (Association of Chartered Certified Accountants, 2005, p.1). Reference is often made to external auditing when the word audit is mentioned. This requires the examination of the financial statements by a member of the Institute of Chartered Accountants or a practicing accountant.

The publication of the annual audit report by companies is a statutory obligation. The Companies Code, 1963 (Act 179) requires all companies, both public and private, to appoint auditors who are to issue annual audit reports on the financial statements to every member or debenture holder of the company.

A rapidly growing concept in auditing is Internal Auditing. The Institute of Internal Auditors (IIA) defines Internal Auditing as an independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations. It helps an organization to accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

Internal auditors are employees of the organisation and work exclusively for the organisation. They assist staff of an organization in performing their responsibilities by furnishing them with analyses, appraisals, recommendations, and counsel. By performing those functions, internal auditors can be thought of as a part of an organisation's internal control.

Nearly every large corporation maintains an internal auditing staff whose principal goal is to investigate and appraise the effectiveness with which the various organizational units of the company are carrying out their assigned responsibilities and report their findings and recommendations to the top management. Much attention is given by internal auditors to the study and appraisal of internal control. As representatives of top management, the internal auditors are interested in determining whether each branch or department has a clear understanding of its assignment; is adequately staffed; maintains good records; properly safeguards its cash, inventories and other assets; and cooperates harmoniously with other departments (Whittington et al, 2004, p. 240). Many internal audit departments perform internal consulting activities within their organizations.

Unlike external auditing, internal auditing is not bounded by any statutory obligations. However, internal auditors have obligations to comply with relevant codes of ethics. The Institute of Internal Auditors (IIA) has come out with its own code of conduct with ethical requirements. Another professional body that has developed ethical codes similar to those of the IIA is the Association of Chartered Certified Accountants (ACCA). These ethical requirements have undergone several amendments, additions and replacements. The most recent code by the IIA requires internal auditors to apply basic principles in the conduct of their activities. These are:

- Integrity
- Objectivity
- Confidentiality
- Competency

A breach of the code of conduct attracts a penalty in accordance with the IIA disciplinary procedures.

Corporate governance concerns the way that a company is operated and directed, and in particular encompasses the operations of the board and audit committee, as well as the overall control and risk management framework (Association of Chartered Certified Accountants, 2005, p.71) Good governance in an organization is a tool to achieve organizational strategy. Over the past years, there has been a loud call for good corporate governance in organizations. The four related characteristics of good governance are transparency, public accountability, effectiveness/efficiency and responsiveness. As a result, the Internal Audit Function has always been viewed as an integral part of corporate financial management and increasingly as an instrument for improving the performance of the corporate world. By providing unbiased, objective assessments of whether corporate resources responsively and effectively managed to achieve intended results, auditors help achieve accountability and integrity, improve operations, and instill confidence among stakeholders.

The banking industry differs fundamentally from other industries in the country. An apparent area of variation is in the products and services provided. Banks mainly deal in the most liquid and largely risky assets of business; cash and cash equivalents. Again, besides the Companies Code, 1963 (Act 179), banking operations in Ghana are governed

by the Banking Law, 1989 (PNDCL 225) as amended by Banking (Amendment) Act 2004. These together with many other factors distinguish the banking industries from the other industries in terms of risk exposures. Banking may be unique, in that it is so intimately involved with money, but it is not unique in the fact that it faces competition in selling its services to customers (Geoffrey and Keith, 1999, p. 10).

Banks lie at the heart of the world's financial system. They represent the source we often visit to find a loan to purchase a home or automobile, start a new business, or finance a college education (Peter and Sylvia, 2008).

Banking institutions have been springing up in all corners of the country. The past few years of Ghana's economic history have seen different forms of banks being introduced into the country. These take the form of commercial, investment, development and rural banking. Most of these banks are subsidiaries of international banks with their parent companies domiciled abroad.

Tamale, the regional capital of the Northern Region, and the economic hub of the three Northern Regions, has been growing economically in the past decade. The steady economic growth of Tamale has brought about a yawning gap in financial intermediation. To bridge this gap, most banks have established branches in Tamale. Notable among these banks that have been established in Tamale in the past two years are the Amalgamated Bank Ltd., Stanbic Bank Ltd., Intercontinental Bank Ltd. and Zenith Bank Ltd.

For the fact that the banks have differences in the scale, diversity, complexity and geographical coverage, different management structures are being adopted by each bank. Of particular significance is the functioning of the internal audit unit in the various banks.

Each bank is subject to different degrees and types of risks. The internal audit function is therefore tailored in such a way as to manage the risk exposure of the banks.

In fact, almost all the banks in Tamale have their head offices in Accra or elsewhere in foreign countries. As a result, most of these banks do not have branch level internal audit units. Instead, a centralised internal audit unit is established at the head office with a duty to provide internal audit services to all the branches in the country. The problem with centralised internal audit department is how to be in many branches at once to assure proper monitoring of activities. A solution to this is to maintain internal audit presence in all branches in the larger or main regional centres. In some cases, banking supervision units have been established to provide similar services as the internal audit function. This may be quite an expensive thing to do as offices, logistics and human resources are needed for an effective functioning of the internal audit units.

Statement of the Problem

To ensure an effective internal control system, internal auditing is practised in all types of organisations. However, the methods adopted in conducting the internal audit activities, checking and verifying, are diverse, sometimes perverse and burdensome, and always costly. These variations in the internal audit functions stem from the differences in the risk exposure in different industries.

Even though accounting in general is built into the very structure of human interaction and accountability is fundamental to everyday structures of human interdependence, actual practices of checking or auditing can vary considerably. Much depends on what the community or society demands and this in turn is a function of what it is prepared to trust and types of risk to which it feels vulnerable.

A well performing internal audit function is one of the strongest means to promote the good governance system in an organisation. As a result, in many countries it has received increasing attention as an important component of financial management and as a tool for improving the performance of both the private and public sectors.

In connection with this, this survey is being conducted in banks in Tamale to assess and determine what current practices and desired practices of the role of Internal Audit functions are and to identify the gaps related to the monitoring and promoting of good governance in the corporate sector.

Objectives of the Study

The primary aim of the study is to evaluate the extent to which the current and planned internal audit function is positioned to contribute towards one of the major objectives of achieving good corporate governance in the banking institutions for accountability and service improvement. To assess this basic objective, the specific objectives of the study will be to:

- i. find out the extent to which internal auditors are involved in the effective running of banking institutions;
- ii. determine the factors that impede the internal audit function from performing its role in enhancing good corporate governance in the banking sector;
- iii. identify the kind of safeguards that need to be built into the internal audit function to ensure that internal audit will meet its external governance responsibilities in the banking system of the country.

- iv. Ascertain whether the rules of professional conduct on internal auditing are being adhered to in banks.

Research Questions

The question the research sought to answer are as follows:

1. Are internal auditors significantly involved in the effective running of banking institutions?
2. Are the rules of professional conduct on internal auditing being adhered to in banks?
3. To what extent are internal auditors independent in the conduct of their activities?

Relevance of the Study

The results from the study will help assess the extent to which the laws, policies and procedures promulgated on internal audit functions in the banks are implemented. It will also enable us to identify the causes of poor implementation of those laws and regulations. The creation of awareness on internal audit functions can contribute to the promulgation of workable laws on internal auditing as well as the improvement in policies and procedures on internal auditing. The results from the study will enlighten people on the proper functions of the internal audit unit in an organisation. The study will bring to light the current developments in the internal audit profession. It will also be a useful document to internal auditors in banking and non-banking institutions in the country.

Methodology

The survey was conducted using detailed questionnaires. It was conducted with the goal of assessing the effectiveness of the internal audit function in banking institutions in Tamale. Structured questionnaires were administered to 31 internal auditors, Managers, Accountants or Operations Officers, Tellers and other bank staff in Tamale. The sample was drawn from all banks located in Tamale, whether foreign or local. Two different sets of questionnaires were used; one for the internal auditors and the other for managers, accountants or operations officers, tellers and other bank staff. Secondary data were included in the research by referring to most recent information from authoritative authors and web pages.

Organisation of the Study

This report of the study has been presented in five chapters. Chapter one is the introduction which discusses the background, the problem statement, the objectives, research questions, the relevance and methodology of the study.

Chapter two is literature review. Under this chapter, relevant literature on internal auditing has been discussed. These include such aspects as the definition of internal auditing, the evolution of internal auditing, the standards for the professional practice of internal auditing and similar topics.

Chapter three contains the methodology of the research. Topics covered include the population, sampling and sampling technique, data collection instrument, type of data collected and sources, administration of the questionnaires and data analysis methods.

Data presentation and analysis is discussed in chapter four.

Chapter five, the final chapter, contains the summary, conclusions and recommendations.

CHAPTER TWO

LITERATURE REVIEW

Introduction

This chapter deals with the review of relevant literature on internal audit and how it is practised in business organisations the world over. It discusses such areas as the definition of internal audit; evolution of internal auditing; objectives and functions of internal auditing; internal auditing activities; limitations of internal audit function; the need for an internal audit function; types of audit; independence of internal auditors; audit committee; audit reporting; internal auditing standards; ethics for internal auditors; internal audit planning; audit programmes; internal control; and outsourcing of internal audit.

Definition of Internal Audit

Internal auditing has been variously defined by many authors and bodies. Larry and Bradley (1997, p. 14) defined internal audit as an independent appraisal function established within an organization to examine and evaluate its activities as a service to the organization. The objective of formal auditing is to assist members of the organization in the effective discharge of their responsibilities. To this end, internal auditing furnishes them with analyses, appraisal, recommendations, counsel, and information concerning the activities reviewed.

A definition that is often quoted by most writers is the one given by Institute of Internal Auditors. The Institute of Internal Auditors defined Internal Auditing as an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives

by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes. To this end internal auditing furnishes them with analyses, appraisals, recommendations, and counsel and information concerning the activities reviewed (Iain et al, 2000 p. 221).

According to this definition, an internal audit function could be viewed as a first line “defence” against inadequate organisational governance and functional reporting. With appropriate support from Board of Directors and audit committee (if any), the internal audit staff is in the best position to gather intelligence on inappropriate accounting practices, inadequate internal controls, and ineffective corporate governance.

Evolution of Internal Auditing

According to Larry and Bradley (1997, p. 14), internal auditing is performed throughout the world in diverse environments and within organizations that vary in purpose, size, and structure. They assert that the field of internal auditing has experienced dynamic growth in recent years. This rapid growth has been fueled, in part, by three main developments:

- Management’s need for an independent appraisal of organizational departmental performance.
- Increased emphasis on effective procedures to detect or prevent fraud.
- Management’s need for thorough evaluations of organizational control, with special emphasis on sophisticated computer systems.

They submit that internal auditing has grown from a group of “internal checkers” of 50 years ago to a profession performing complex computer audits, operational audits, analysis of operations, and special investigations for management and board of directors.

Objectives and Functions of Internal Auditing

According to Association of Chartered Certified Accountants (2005 p. 77), the internal audit function is responsible for evaluating, and commenting on the effectiveness of risk management, control and corporate governance process.

Tawiah (2006, p. 38) sees the objectives of internal auditing as being part of its definition. He defined internal auditing as follows:

“Internal auditing is a systematic, objective appraisal by internal auditors of the diverse operations and controls within an organization to determine whether:

- *Financial and operating information is accurate and reliable,*
- *Risks to the enterprise are identified and minimized,*
- *External regulations and acceptable policies and procedures are followed,*
- *Satisfactory standards are met,*
- *Resources are used efficiently and economically, and*
- *The organization’s objectives are effectively achieved*

all for the purpose of assisting members of the organization in the effective discharge of their responsibilities”.

Diane and John (2000) identified the functions of internal auditing to include internal control; review of budgetary control and management information systems; compliance with policies, plans, procedures, laws and regulations; operational and ‘value for money’ audits; and special audits or investigations.

Internal Auditing Activities

Tom (1972) has identified the following as the activities of internal auditing.

i. Financial accounting – that is, verifying, testing and reporting on the suitability of the financial accounting information periodically supplied to company management, including monthly, quarterly and six-monthly accounting reports on the company's profits and financial position; reports on the company's cash and credit position, including the inventory it has in store, in process, in transit and on order; and reports on production and sales levels.

ii. Management accounting – that is, verifying, testing and reporting on the suitability of the periodic management and cost accounting information supplied to management, including monthly, quarterly and six-monthly cash forecasts; periodic budgets of company costs, revenues, profits and financial position; and statements of standard costs, and analysis of the variances which have arisen between the budgeted and actual costs, revenues and profits.

iii. Internal accounting control – that is, verifying, testing and reporting on the effectiveness of the company's system of controls, with particular reference to the various safeguards in operation to prevent loss of company assets and to ensure the effectiveness of its accounting data process.

iv. Operational effectiveness – that is, verifying, testing and reporting on the effectiveness of the company's operations which implement its policies and decisions affecting production, selling, administration etc. The strength of control in these areas is also of concern. This part of internal auditing involves mainly

non-accounting personnel, which distinguishes it from the previous three activities, which are mainly accounting in nature.

v. Managerial efficiency – that is verifying, testing and reporting on the efficiency of company management, particularly the way in which it formulates its plans, policies and decisions. This again requires the use of mainly non-accounting experts.

Diane and John (2000) state that in financial services clients, internal auditing is more likely to concentrate on security and control procedures. The nature and scope of internal auditing should always reflect the requirements of senior management and the expected benefits and costs.

Limitations of Internal Audit Function

The limitations of the internal audit function are many and varied. The following are some of the limitations.

i. Independence

Internal audit should be an independent and objective function. However, this independence can be compromised, particularly where the reporting lines are through operational areas which they are required to review and report on. If an auditor with a reporting line is required to provide critical comment on Finance itself, there may be pressure to avoid confrontation and either soften or omit such comment. The standards for the Institute of Internal Auditors require that independent oversight is provided where internal audit is responsible for an operational area.

Where internal auditors have moved to the Internal Audit department from an operational area, they should not be involved in audits of that department for a minimum of a year. Whilst they might be seen to have excellent knowledge of the area, their independence could be compromised.

ii. Relationship between internal and external audit

Internal and external audit should work closely together, with reliance by external audit on the work of internal audit. This is dependent on the two functions having common understanding of the organisation's needs.

iii. Variations of standards

Approaches in internal audit vary significantly across the industry. Whilst some are moving to a more consultancy-type approach, others continue to perform a 'tick and check' approach.

iv. Relatively new profession

Internal audit is still a relatively new profession, which has been changing significantly over the years. A wide variety of backgrounds are attracted into internal audit.

v. Expectations gap

There is a balance to be achieved between added value work and 'checking' work, and a potential skills and expectations gap between consultancy and compliance.

Organisations are increasingly subject to change in objectives, systems and procedures, which affect the company risk profile. Internal auditors may not always be geared up for such constant change which affect both the scope of work carried out and the skills required.

vi. *Understanding of internal audit*

There is generally poor understanding of the function of internal audit. It is still seen as a negative ‘policing’ activity, checking for compliance. There is therefore a significant education exercise for internal auditors within an organization to aid understanding of risks, controls and internal auditing (Association of Chartered Certified Accountants, 2005 p. 77).

The Need for an Internal Audit Function

Whether a company needs an internal audit function depends on many factors, including the following.

- *The scale, diversity, and complexity of the company’s activities.*
- *The number of employees.*
- *Cost/benefit considerations.*
- *The desire by directors and senior management for objective assurance and advice on risk and control.*
- *The need for assurance and advice in specialist areas such as health and safety, regulatory and legal compliance and environmental issues.*
- *The need for other (and possibly less effective measures) for assurance and advice in the absence of an internal audit department.*
- *Trends and new factors that may change the external or internal environment of the company and increase risk.*
- *Evidence from internal monitoring processes of weaknesses or failures of control.*

- *An increase in unexpected occurrences* (Association of Chartered Certified Accountants, 2003, p. 59).

Types of Internal Audit

Larry and Bradley (1997, p.14) have classified the types of audits performed by internal auditors as operational audits, compliance audits, financial audits, and computer systems audits.

i. Operational Audits

Operational audits are designed to evaluate the economy and efficiency with which resources are employed. An operational audit can be applied to virtually every facet of an organization's operations. Such audits are both challenging and interesting because the auditor is charged with developing objective criteria by which an operation can be evaluated, and the auditor by necessity becomes intimately familiar with many operational aspects of an organization. The emphasis is not on historical financial processing but on operational effectiveness. The auditor is expected to make constructive recommendations for improvement.

ii. Compliance Audits

Management often wants to know whether its organizational policies are being complied with or whether external mandates, such as bond indenture restrictions or government loans and regulations, are being met. Other compliance audits might examine whether the company is meeting its environmental policies. A major part of most internal audit functions focuses on the quality of the organisation's control structure and compliance with it.

iii. Financial Audits

Financial audits are similar to those performed by the external auditor in the annual audit of a company's financial statements. The internal auditor evaluates the reliability of the financial records as well as the reliability and integrity of important financial processing systems. Since internal auditors are part of the organization, they are not in a position to provide independent attestation services to outside users. Often, however, they will coordinate this financial auditing work with that of the external auditor to provide a broad coverage at an economical cost for the organization.

iv. Computer System Audits

Today's computer systems are becoming increasingly complex and are often integrated with other systems both within the organization and, ultimately, outside it. Because they operate within the organization, internal auditors have the unique ability to conduct regular audits of the computer systems throughout the year. Internal auditors often develop sophisticated techniques to monitor the effectiveness of computer controls and operations throughout the year.

In addition to the above, William (2000, p. 12) has identified forensic audit describing its purpose as the detection or deterrence of a wide variety of fraudulent activities.

Independence of Internal Auditors

For Whittington and Pany (2004, p. 723), since internal auditors are employees of the organization, they cannot have the perceived independence of the external auditors. However, independence is still very important to internal auditors. They should maintain

an impartial, unbiased attitude and avoid conflicts of interest. Independence of the internal auditing department is enhanced when the chief audit executive reports to a level of management of sufficient stature to ensure broad audit coverage, and adequate consideration and implementation of the auditors' recommendation. Ideally, the chief audit executive should report directly to the audit committee of the board of directors. Independence is also enhanced when potential conflicts of interest are considered in assigning staff to audit assignments. For, example, it would be a conflict of interest for an internal auditor to audit an area in which that individual was recently employed. It is difficult, if not impossible, to remain objective in evaluating one's own decisions.

Internal auditors hold independence, and the objectivity thus obtained, as a goal. Although internal auditors cannot be disassociated from their employers in the eyes of the public, they seek operational and reporting independence. Operationally, internal auditors should be independent when obtaining evidence in the sense of being free from direction or constraint by managers of the business unit under audit (Jack, 1996, p. 818).

For Donald (1994), internal auditors (who may be CPAs but not independent contractors) are employees of the organizations whose activities they appraise. Measures can be taken, however, to give the auditors some independence. He added that it is an oversimplification to say that external auditors are independent and internal auditors are not and independence is a continuous rather than a discrete concept.

According to Association of Chartered Certified Accountants (2005, p. 53, 77), for internal auditors, there is no longer the option of hiding behind the concept of independence to avoid making clear recommendations and taking an active role in addressing findings encountered during audits. As the move to be involved in major

change initiatives, and in consultancy type work, increases, then so does the potential impact on independence. Again it is the auditor's objectivity and the department's organizational status that become important. One overall requirement remains, however: if the internal auditor has been involved in operating a function or operating the controls, then that auditor should not then be put into a position of auditing the function. Internal audit should provide an independent and objective function, but there are increasing pressures to add value within the organisation and for this reason the function cannot be truly independent of the organisation in which it operates. Internal audit is part of the overall control framework of the organisation.

For James (2006, p. 28), internal audit departments basically perform a watchdog function. Over time, independence is eroded by the fact that, at the end of the day, an internal auditor is an employee who functionally reports to the CEO. Though the issue of independence from management is widely preached, the CEO and sometimes the head of finance are involved in hiring and firing of internal audit department staff.

According to Millichamp (1997), internal auditors are employees of the firm and thus independence is not always easy to achieve. However it can be assisted by:

- *having the scope to arrange its own priorities and activities*
- *having unrestricted access to records, assets and personnel*
- *freedom to report to higher management and where it exists to an audit committee*
- *IA personnel with an objective frame of mind*
- *IA personnel who have no conflicts of interest or any restrictions placed upon their work by management*

- *IA personnel having no responsibility for line work or for new systems. A person cannot be objective about something he / she has taken responsibility for. On the other hand the IA should be consulted on new or revised systems*
- *IA personnel who have no non-audit work.*

How to Make the Internal Audit Function Effective

Iain et al (2000, p. 221) suggest that the following factors would be required to make the internal audit department effective.

a. *Support of top management.* This support should also involve public support for the department in all parts of the organization to ensure as far as possible that auditors are treated with respect. It would be important that the role of internal audit and its powers are well understood within the organization. To a large extent, internal audit is as useful as management allows it to be. Thus, if internal audit issues reports which are critical to certain parts of the organization and management takes no action for political reasons, this would only serve to undermine the internal audit function and reduce its effectiveness. Management may also reduce the role of internal audit by restricting it to compliance type auditing or by involving it only in day-to-day checking procedures rather than independent audit work. This is why the Cadbury Committee Report suggested that audit committees be composed of high quality non-executive directors with a remit to play a role independent of the executive board in enhancing the status and function of the internal and external auditors.

The decision to combine efficiency auditing, effectiveness auditing and operational auditing generally with compliance auditing would indicate a positive attitude by top management or non-executive directors towards internal audit. If this

were combined with the ability of internal auditors to initiate work without reference to the person(s) to whom they are responsible, this would tend to increase their status and effectiveness. To the extent that their recommendations are put into effect, there would be a similar effect.

b. *Independence of the internal auditor* from parts of the organization subject to audit, both in terms of area of work and to whom responsible (that is, physical independence). Thus if the internal auditor is investigating the efficiency of operations within the accounting department, it would be inappropriate for the auditor to report to the chief accountant (who may be the prime cause of inefficiencies within the department). In recent years, particularly since the Cadbury committee Report in 1992, audit committees have become an important feature of corporate governance.

c. *A strong ethical culture* within the company and the department. Clearly the head of internal audit will play a vital role in this respect.

d. *The appointment of motivated staff* is vital. They will need a strong educational background, enquiring mindsets and the ability to communicate well and to get on with people of widely differing backgrounds. In view of the diverse range of activities in which the internal auditors appear to be involved, staff members should possess a suitable range of skills, that is, skills beyond traditional auditing.

e. *Continuing education and training*. The competence of audit staff is clearly just as important as the independence and internal auditors should receive proper continuing education and training. This factor will not only enhance the general efficiency and effectiveness of internal audit function, but also may be seen as important for the enhancement of independence, as it raises the status of the auditor. In addition, a well-

informed and competent auditor will be better able to recognize the dangers of mental dependence.

f. *An appraisal system* that ensures that good work is properly rewarded, including promotion.

g. *Good leadership of the department* ensures that all staff are aware of objectives, suitable audit techniques and approaches, deadlines, etc.

h. *Good communication links with all parts of the organization*, which ensure the necessary information is available and that reasonable deadlines are set for work to be performed.

i. *Steps to ensure that staff behave in a professional way at all times*. This would include the maintenance of an independent state of mind even where the auditor is involved in participative auditing. Independence in mental attitude is difficult to measure but it is a very important aspect of auditor effectiveness, whether the auditor is internal or external.

We would mention here that internal auditors are often members of the professional accounting bodies, bodies that expect their members to develop their professionalism and to behave with honesty and integrity in all matters pertaining to their work. In recent years, the Institute of Internal Auditors has promoted the qualification of internal auditor and has operated an examination scheme for some time leading to qualification as internal auditor. One would expect membership of professional bodies to be a factor enhancing the status of internal auditors.

j. *Steps to ensure high job satisfaction.* This might include giving staff the chance to work on the more interesting tasks such as being involved in making decisions on acquisitions of companies and disposal of parts of the organization, even if this might initially be in a junior capacity.

In the past when internal auditors were concerned principally with compliance auditing there was often a perception of conflict between auditor and the people being audited. Some authorities believed that many people in organizations held unfavourable images of internal auditors and also that internal auditors tended to have lower job satisfaction than middle level managers and external auditors. Low job satisfaction clearly would be an important factor limiting effectiveness, particularly if the person being audited were to make the auditor feel unwelcome.

k. *Steps to ensure that performance measures are available to evaluate performance.* The definition of internal auditing issued by the Institute of Internal Auditors states that internal auditing ‘furnishes them [members of the organization] with analyses, appraisals, recommendations, counsel and information concerning the activities reviewed’. It follows from the foregoing that a means of measuring and evaluating performance must be available to the internal auditor if he or she is to fulfil this duty. Essentially, the internal auditor is searching for evidence to prove, within reason, that the control systems set up by management are operating in the manner required to meet management needs and to give members of the organization useful counsel and reliable information concerning the activities reviewed. To do this the auditor must be aware of management aims and objectives at all levels, must be able to use the techniques, data and information that management itself uses in its operations, and must be capable of

reporting on the controls and management information with clarity and on a timely basis. The fact that senior management staff have come up through the internal audit department does not suggest that the department is staffed by high quality personnel.

Proposals made by the Research Committee of the Institute of Chartered Accountants of Scotland in 1993

The committee made the following proposals for improving the risk management of corporate organisations.

- i. The document proposed an extended role for internal auditing. It was recommended that all listed companies should have a strong internal audit department headed by a chief internal auditor. The purpose of the internal audit function would be to provide the board of directors with reassurance about the reliability and relevance of the company's management information and internal control systems.
- ii. One of the criticisms levelled at internal auditors is that they are not independent of the board of directors. In an attempt to remedy this it was recommended that as well as reporting to the chief executive of the company the internal audit reports should be directed to the Financial reporting and audit committee. This latter committee would be made up of non-executive directors and would approve the appointment and termination of the employment of the chief internal auditor.
- iii. Since the internal auditor would be performing considerable detailed testing on the internal control systems of the company, this would have implications for the work of external auditor. It was suggested that the external auditors be called

external assessors and that they be less concerned with detailed testing and procedural issues and more with judgmental issues

- iv. In an attempt to reduce the expectations gap and meet some of the ‘reasonable’ expectations of the public, the discussion document suggested that the directors, in addition to their existing duties of reporting on the truth and fairness of the financial statements, should also report:
 - a. whether they believe the company will remain a going concern for a period of at least 12 months from the date on which the directors approve the accounts;
 - b. whether the company have management information systems and internal control systems that are sufficiently relevant and reliable to enable the directors prepare the financial statements and provide assurance that the opportunities for fraud and other illegal activities are minimized.

To satisfy the latter requirements, companies would need to have a strong internal audit group. It is through internal audit work that the directors would be able to satisfy themselves that the internal controls systems are sufficiently strong to enable them to provide assurance in relation to fraud and illegal acts (Iain et al, 2000 p. 601).

Reporting Relationships

According to James (2006), traditionally, the internal audit department has been a function embodied in many organisational charts. Typically, it is depicted with a dotted line with reporting structure to the Chief Executive officer (CEO). In practice, however, save for the organizations that fully recognize the role of internal audit, most internal

audit departments report to the Head of Finance. To function effectively, the internal audit department needs to operate independent of the functional departments and the senior management.

The internal auditor should report his findings to an official in the company who is not involved with directing or reviewing the work of the internal auditor. This is to ensure that some action will be taken on the reports and to ensure that adverse reports are not suppressed.

- (i) It is therefore inappropriate for the internal auditor to report to the chief accountant because this individual is likely to be involved in setting and reviewing the work of the internal auditor. The accountant could therefore suppress or amend any unfavourable reports before they were shown to other senior persons in the company.
- (ii) It would be more appropriate for the internal auditor to report to the board of the company because the directors would be independent of the person directing the work of the internal auditor. This group are therefore less likely to suppress or change the reports of the internal auditor and also more likely to ensure that appropriate action is taken on the reports.

Unfortunately, the board may not understand the detail of the reports, or be too busy to review them in detail. It is therefore possible for the board to appoint an audit committee to review the internal auditor's report in detail. Summaries of the reports along with recommendations would be given to the board for their approval.

The audit committee should be made up from a number of board members, and other officials not involved in setting or reviewing the internal auditor's work. Some non-

executive directors could also be involved here. In this way independence of reviewing the internal audit reports is maintained (Association of Chartered Certified Accountants, 2003, p. 381).

The Consultative Group to Assist the Poorest (CGAP) (1998) sees the following as the ideal reporting lines for internal auditing.

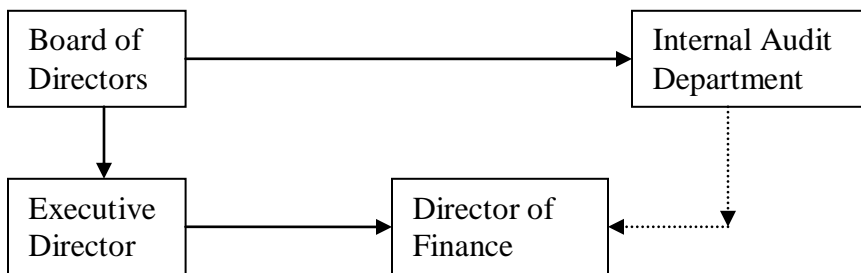


Figure 1 The Ideal Reporting Lines for Internal Auditing

CGAP noted that some internal audit functions report to the director of finance for administrative matters such as staffing, payroll, and benefits.

Audit Committee

A possible definition of an audit committee is a committee consisting primarily of non-executive directors which is able to view a company's affairs in a detached and independent way and liaise effectively between the main board of directors and the external auditors.

For Iain et al (2000 p. 82), an audit committee is a sub-committee of the main board (board of directors) comprised of three (at least) non-executive directors. Its duties may include advising on the appointment of auditors and on their remuneration.

Responsible, among other things, for the effectiveness of the audit function, internal and external, for reviewing the scope and results of the audit.

Functions of Audit Committee

The Combined Code (the Combined Code of the Committee on Corporate Governance - UK, 1998) sets out the main role and responsibilities of the audit committee, which must be set out in a written terms of reference. These include:

- *Monitoring the integrity of financial statements*
- *Reviewing the company's internal financial controls*
- *Monitoring and reviewing the effectiveness of the internal audit function*
- *Making recommendations in relation to appointment and removal of the external auditor and remuneration*
- *Reviewing and monitoring the external auditor's independence and objectivity and the effectiveness of the audit process*
- *Develop and implement policy on the engagement of the external auditor to supply non-audit services*
- *Review arrangements for confidential reporting and investigation of possible improprieties* (Association of Chartered Certified Accountants, 2005, p. 69).

The Smith Guidance on Audit Committees requires the audit committee to:

- *ensure the internal auditor has direct access to the board chairman and to the audit committee and is accountable to the audit committee*
- *review and assess the annual internal audit work plan*
- *receive periodic reports on the results of internal audit work*

- *review and monitor the responsiveness to the internal auditor's findings and recommendations*
- *meet with the head of internal audit at least once a year without the presence of management*
- *monitor and assess the effectiveness of the internal audit in the overall context of the company's risk management system* (Association of Chartered Certified Accountants, 2005, p. 70).

Again, Whittington and Pany (2004, p. 232) identified factors that bear on the effectiveness of the audit committee as including the extent of its independence from management, the experience and stature of its members, the extent to which it raises and pursues difficult questions with management and its interaction with the internal and external auditors. The audit committee of the board of directors should be composed of independent directors who are not officers or employees of the organization and do not have other relationships that impair independence. This enables the audit committee to be effective at overseeing the quality of the organisation's financial reports, acting as a deterrent to management override of controls and to management fraud.

Internal Audit Charter

An internal audit charter, approved by the board, audit committee or other senior executive committee should be in place, setting out the objectives, scope and authority of internal audit. This should include a statement requiring access to everywhere in the organisation.

Internal Auditing Standards

The Institute of Internal Auditors standards support the implementation elements in an internal audit function of corporate bodies and provide a framework for promoting quality audit work that is systematic, objective and based on evidence. To maintain a high quality of services provided by the internal audit profession, the Institute of Internal Auditors has issued standards known as *Standards for the Professional Practice of Internal Auditing*. These standards provide the criteria by which the operations of an internal auditing department should be evaluated and measured. The standards are mainly categorised into two: attributes standards and performance standards.

Ethics for Internal Auditors

Internal auditors, through The Institute of Internal Auditors, have developed their code of professional ethics. The Code of Conduct basically deals with internal auditors' obligation to employers as well as the issues on integrity, objectivity, and competency in the practice of internal auditing profession. The Code of Ethics is applicable to both individual internal auditors and entities that provide internal auditing services (Whittington and Pany, 2004, p. 83).

Internal Audit Planning

Internal audit work must be planned and controlled in order to achieve the agreed objectives of the internal audit department, to establish audit priorities and to ensure the effective use of audit resources. Planning should be documented and should include:

- i) Establishing audit objectives and scope of work
- ii) Obtaining background information about the activities to be audited

- iii) Determining the resources necessary to perform the audit
- iv) Communicating with all who need to know about the audit
- v) Performing, as appropriate, an on site survey to become familiar with the activities and controls to be audited, to identify areas for audit emphasis, and to invite auditee comments and suggestions
- vi) Writing the audit programme
- vii) Determining how, where, and when audit results will be communicated
- viii) Obtaining approval of the audit work plan.

The plan must be sufficiently flexible to allow for a prompt response to unscheduled audit work, e.g. special investigations or specific allegations of fraud (Boateng, 2000, p. 5).

Stages in Internal Audit Planning

Millichamp (1997) describes the stages of internal audit planning as follows:

- i. *Identify the objectives of the organisation (the organisation may have a mission statement)*
- ii. *Define the IA objectives*
- iii. *Take account of relevant changes in legislation and other external factors (e.g. new legislation)*
- iv. *Obtain a comprehensive understanding of the organisation's systems, structures and operations*
- v. *Identify, evaluate and rank risks to which the organisation is exposed*
- vi. *Take account of changes in structures or major systems in the organisation (e.g. a change in the computer system)*

- vii. *Take account of strengths and weaknesses in the Internal Control system*
- viii. *Take account of management concerns and expectations*
- ix. *Identify audit areas by service, functions and major systems*
- x. *Determine the type of audit: e.g. systems, verification, or value of money*
- xi. *Take account of the plans of external audit and other review agencies (e.g. the regulatory agencies in financial services, banking or insurance)*
- xii. *Assess staff resource required and match with resources available.*

Objectives of Internal Audit Planning

According to the Internal Audit Agency (IAA) (2007), the objectives of audit planning are:

- *To set out the way in which legal obligations and other audit priorities will be achieved;*
- *To identify the scope, objectives and anticipated outputs of audits;*
- *To define how the audit evidence necessary to achieve the objectives will be obtained and analysed; and*
- *To identify the resources that will be needed and actually employed on audits and establish cost and time budgets.*

Benefits of Internal Audit Planning

The IAA (2007) also identifies the following as the benefits of internal audit planning:

- ❖ *Rationality: the process and outputs of planning encourages a logical assessment of the tasks and the setting of clear objectives;*

- ❖ *Prospective: tasks are set into their time dimension, so that a clearer view can be gained of priorities;*
- ❖ *Co-ordination: the co-ordination of audit policies and actual audit work.*

Audit Programmes

The purpose of audit programme is to provide the auditor with a framework within which he should work and to give him brief guidance on the system in operation and the records and forms in use.

Audit programmes exist, or will need to be constructed, for every location and procedure shown on the audit plan

The programme will also indicate all the aspects which should be inspected assuming a full audit is to be carried out but in practice, the scope of the audit may be limited by an audit pre-plan which will prescribe which parts of the programme should be undertaken and the depth of checking required (Boateng, 2000, p. 6).

Audit Reporting

Audit reporting is the final phase of the audit process. PS 2060 of the IIA requires the chief audit executive to report periodically to the board and senior management on the internal audit activity's purpose, authority, responsibility, and performance relative to its plan. It also requires that reporting should include significant risk exposures and control issues, corporate governance issues, and other matters needed or requested by the board and senior management.

General Rules for the Internal Auditor's Report

The IAA (2007) documents the following as the rules to be observed in preparing the internal audit report.

- ❖ *The observations should focus on the main issues and should be concise and brief;*
- ❖ *The audit objectives should also be described;*
- ❖ *Detailed descriptions which do not provide essential data for observations should be avoided;*
- ❖ *Findings and conclusions on all matters should fully be discussed with auditees whose views, where appropriate, should be reflected in the reports;*
- ❖ *As far as possible, the auditor should make recommendations in connection with reported deficiencies and errors;*
- ❖ *The recommendations should be specific and possible to implement;*
- ❖ *The entity should be given the opportunity to provide a report on the actions it has taken or intends to take as a result of audit observations and recommendations;*
- ❖ *The report should give a true and fair overall picture. Significant improvements in relation to previous audits should be reported.*

Audit conclusions should be reported to appropriate levels of management and within a reasonable time period. The form and content of an internal audit report is usually left to the discretion of the internal auditor. When a reportable condition, error fraud, or illegal act is discovered, its effects should be corrected and recommendations made to improve accountability (David, 2001, p. 749-751).

Definition of Control

“Control is the employment of all the means devised in an enterprise to promote, direct, restrain, govern and check upon its various activities for the purpose of seeing that enterprise objectives are met. These means of control include, but are not limited to, form of organization, policies, systems, procedures, instruction, standards, charts of accounts, forecasts, budgets, schedules, reports, records, checklist, methods, devices and internal auditing.”

Definition of Internal Control

There have been differences in opinion about the meaning and objectives of internal control. Internal control has been defined by Whittington and Pany (2004, p. 8, 259) as a process, effected by the entity’s board of directors, management, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the categories of (1) effectiveness and efficiency of operations, (2) reliability of financial reporting, and (3) compliance with applicable laws and regulations. It consists of the policies and procedures established to provide reasonable assurance that the objectives of the company will be achieved, including the objective of preparing accurate financial statements.

According to Association of Chartered Certified Accountants (2005, p. 141), internal control, which comprises control environment and control procedures, includes all the policies and procedures adopted by the directors and management of an entity to assist in their objective of achieving, as far as practicable, the orderly and efficient conduct of the business, including adherence to internal policies, the safeguarding of assets, the prevention and detection of fraud and error, the accuracy and completeness of

the accounting records, and the timely preparation of reliable information. It defines control environment as the overall attitude, awareness and actions of management regarding internal controls and their importance while control procedures are seen as those established to achieve the entity's specific objective.

Internal Auditor's Responsibility for Internal Control

According to Iain (2002, p.235), internal audit is an important part of the internal control system and its existence (or non-existence) to some extent reflects top management's attitude towards internal control. The existence of an internal audit department thus has an impact on the external auditor's assessment of control risk.

An important component of internal control is monitoring. Monitoring of controls is a process to assess the quality of internal control performance over time. It is important to monitor internal control to determine whether it is operating as intended and whether any modifications are necessary. Monitoring can be achieved by performing ongoing activities or by separate evaluations.

- i. Ongoing monitoring activities include regularly performed supervisory and management activities, such as continuous monitoring of customer complaints, or reviewing the reasonableness of management reports.
- ii. Separate evaluations are monitoring activities that are performed on a nonroutine basis, such as periodic audits by the internal auditors. An important aspect of the organization's monitoring system is the internal auditing function. Internal auditors, investigate and appraise internal control and the efficiency with which the various units of the organization are performing their assigned functions, and report their findings and recommendations to top management. As representatives

of top management, the internal auditors are interested in determining whether each branch or department has a clear understanding of its assignment; is adequately staffed; maintains good records; properly safeguards cash, inventories, and other assets; and cooperates harmoniously with other departments.

Thus the internal auditor has extensive responsibilities for internal control but that does not include setting up or installing systems of internal control. (However they may be involved with that process under the direction of management.) Pany (2004).

Statements on Internal Auditing Standards (SIAS 1) tell us that all control processes are subject to the internal audit to determine if:

1. there is reasonable assurance that objectives and goals have indeed been established;
2. control systems are adequate to enhance their achievement and are working to that end; and
3. the planned results have been achieved. SIAS 1 encompasses key aspects of the control process and the internal auditor's responsible for evaluating it. But control is a broad subject; it encompasses anything that enhances operations according to management's objective. The professional internal auditor needs to have an intimate familiarity with the concepts of control and its application to varied kinds of audits (Tawiah, 2006, p.40).

Outsourcing of Internal Audit

When outsourced, a specialized service provider other than company employees performs a portion or all of the internal auditing function. In some cases, CPA (Certified Public Accounting) firms that also performed the audit of financial statements provided

major portions of the internal auditing functions for companies (Whittington and Pany, 2004, p. 723).

Advantages of Outsourcing

James (2006, p. 28) describes the advantages of Outsourcing as follows.

i. Enhanced independence

Outsourcing provides a perfect solution to the independence issue, where the reporting is done directly to the audit committee. The management is only involved in providing a platform for conducting the audit. This way the internal auditor is able to provide services independently without fear or favour.

ii. Variety of skills

Outsourced services come with a wide variety of skills. Different people possessing different skills come with new ideas and look at business processes from different angles. Blending and rotating members in an outsourced arena offer different expertise such as information technology review, business process specialists, trend and analytical review. In-house audit departments are normally allocated limited budgets that in turn limit the availability of diversified skills.

iii. Familiarity and acceptance

Familiarity breeds contempt. In-house staff gradually becomes too familiar with colleagues at their work place resulting in them becoming part of the system of suffering contempt. Once they become part of the system, they end up overlooking significant weaknesses in internal control procedures. In such a case, they are not able to detect and advise the management on weaknesses within the organization. Once they suffer contempt, their reports are reviewed with skepticism rather than corrective. In an

outsourced scenario, internal auditors do not interact from time to time with the management thereby minimizing chances of familiarity.

iv. Flexibility to terminate

Staff rationalization, downsizing, and retrenchment are becoming popular terms in today's world. Certain moral and financial technicalities set in when organizations plan to downsize, for example, joblessness and payment of retrenchment package. Outsourced audit services can be terminated without much hustle by way of a notice from either party.

CHAPTER THREE

RESEARCH METHODOLOGY

Introduction

This chapter contains a discussion of the approach that was used in carrying out the research. The areas covered include the population, sample and sampling technique, data collection instruments, type of data collected and sources, administration of the questionnaires, method of analysis and scope and limitation. The survey was conducted with the objective of evaluating the extent to which the internal audit department is positioned to contribute towards one of the major objectives of ascertaining good corporate governance in the banking institutions of Tamale.

The Population

The population of the research comprised of bank managers, internal auditors, accountants and/or operations officers, tellers and other officers of banking institutions in Tamale. All the eleven banks in Tamale were targeted for the study. However, two of the banks were excluded for reasons of non-return of the questionnaire and reluctance on the part of the officers in the banks to answer the questionnaires. The remaining nine banks covered by the study comprised of six commercial banks, one development bank, one investment bank and one rural bank.

Sample and Sampling Technique

The sample was drawn from all the nine banks under the study. The sample size for the research was twenty-three (23). This was made up of three (3) bank managers, three (3) accountants or operations officers, three (3) tellers, two (2) internal auditors and

twelve (12) other bank staff. A combination of simple random sampling and purposive sampling techniques were used in selecting the respondents. The purposive sampling technique was used for the bank managers, accountants or operations officers, and internal auditors, while the simple random sampling technique was used for the tellers, and other bank staff.

Of the banks sampled, 65.2% have a local ownership, 17.4% representing banks owned jointly by foreign and local persons. Banks that are wholly owned by foreigners represent 34.8%. It is noted that two banks (22.2%) out of the 9 banks sampled are listed on the Ghana Stock Exchange (GSE). Again, out of the nine (9) banks, eight (8) are branches.

Data Collection Instruments

Structured questionnaires are the main data collection instrument used. Two sets of questionnaires were used in gathering the data from the respondents. The questions were both opened-ended and close-ended. One of the questionnaires (Appendix A) contained eight sections comprising of organisational information, internal audit department, audit committee, independence, audit plans and programmes, competence of the internal audit staff, professional audit standards, and reporting and follow-ups. It was administered to the Managers, Accountants or Operations Officers, Tellers and other bank staff. The sample for this questionnaire is twenty-one (21) administered in eight (8) banks. The other questionnaire (Appendix B) which contained one more section (outsourcing of internal audit function) in addition to those in Appendix A was administered to Internal Auditors in the banks. Two people responded to this questionnaire in the two banks that have internal audit departments in Tamale.

Type of Data Collected and Sources

The survey was conducted by collecting mainly primary data, through questionnaires, from staff of banking institutions in Tamale. Secondary data were also included in the study through references to authoritative books and web pages. This included relevant literature such as newsletters, text books, standards for the professional practice of internal auditing and ethics for internal auditors by the Institute of Internal Auditors (IIA) and The Internal Audit Agency Act, 2003 (Act 658).

Administration of Questionnaires

The questionnaires were given to the respondents personally. This provided me the opportunity to respond to whatever preliminary questions the respondents would raise before filling in the questionnaires. The distribution of the questionnaires took six days (18th to 24th March, 2009). My expectation was for the respondents to use a maximum of one week to complete the questionnaires. However, most of them exceeded this estimation with the last questionnaire being collected as late as 2nd May, 2009. The reasons provided for the delay in completing the questionnaires included pressure at the work place and forgetfulness; quite reasonable especially with banking staff. The administration of the questionnaires therefore took a period of forty-six (46) days.

Methods of Analysis

Given the questionnaires contained both open-ended and close-ended items, both quantitative and qualitative data analysis methods were used. The data collected by means of questionnaires were analysed using computer software for statistical analysis (SPSS programme). This method was employed for the close-ended questionnaire items.

The qualitative method of analysis was used for the responses on open-ended items and questions on the questionnaire for internal auditors that are meant for only internal auditors who were only two. Questions that are common to both questionnaires are jointly analysed. This explains the inconsistencies in the total frequency (21 and 23) in the analysis in chapter four.

Scope and Limitation

The study was conducted through a survey of the officers in the banking institutions in Tamale. The use of a sample instead of the entire population of the bank staff could result in sampling error that could have an effect on the result of the research. Again, the exclusion of the SG-SSB and Intercontinental Bank from the study could also affect the outcome of the study. The assumption made by the researcher was that the sample selected was a good representation of the population of officers in the banking institutions.

Also, respondents in the study were mainly non-auditing staff of internal audit services (91%) rather than providers of the services (internal auditing staff). Most of the banks in Tamale have their internal audit departments (IADs) at their Head Offices located in Accra and places outside Ghana. This required that some questionnaires be administered at the Head Office internal audit departments for a more comprehensive study. However, due to cost and time constraint the sample was drawn only from banks in Tamale; the centre of the study.

Despite all these short-comings, the researcher has a strong belief that the results of the study are highly reliable.

CHAPTER FOUR

DATA PRESENTATION AND ANALYSIS

Introduction

This chapter discusses the presentation and analysis of data gathered from the respondents in the various banks in Tamale. The data have been presented in tabular, graphical and narrative forms where appropriate. Narrations and analyses accompany the tabular and graphical presentations. Findings made are also discussed.

The sample was made up of bank managers (13%), accountants or operations officers (13%), tellers (13%), internal auditors (8.7%) and other bank staff (52.3%). Table 1 shows this picture.

Table 1 Position of Respondent in Organisation

Position of Respondent	Frequency	Percent (%)
Bank Managers	3	13.0
Accountants or Operations Officers	3	13.0
Tellers	3	13.0
Internal Auditors	2	8.7
Others	12	52.3
Total	23	100.0

Source: Survey, May, 2009

Table 2 Rate of Response to Questionnaires

S/N	Name of Bank	No. of questionnaires Sent	No. of questionnaires collected	Response Rate (%)
1	Agricultural Development Bank	4	3	75
2	Zenith Bank	3	3	100
3	Ghana Commercial Bank	6	3	50
4	Standard Chartered Bank	2	1	50
5	Stanbic Bank	3	3	100
6	Barclays Bank	3	3	100
7	AMAL Bank	5	4	80
8	National Investment Bank	2	2	100
9	Bonzali Rural Bank	2	1	50
10	Intercontinental Bank	1	0	0
11	SG-SSB	0	0	0
Total		31	23	74

The response to the questionnaires was quite good. The effective rate of response to the questionnaires was 74% as summarised in Table 2. Some of the questions asked in one questionnaire are repeated in the other questionnaire.

Existence of Internal Audit Department

The survey results (Figure 2) depict that only 9.5% of respondents mentioned that their banks do not have an Internal Audit Department (IAD) while a greater percentage (90.5%) mentioned that the bank has IAD. These Internal Audit Departments are located at their head offices. Only two (2) out of the nine (9) banks on which the research was based have Internal Audit Departments located in Tamale. In banks where Internal Audit Department does not exist, the respondents expressed the need for it.

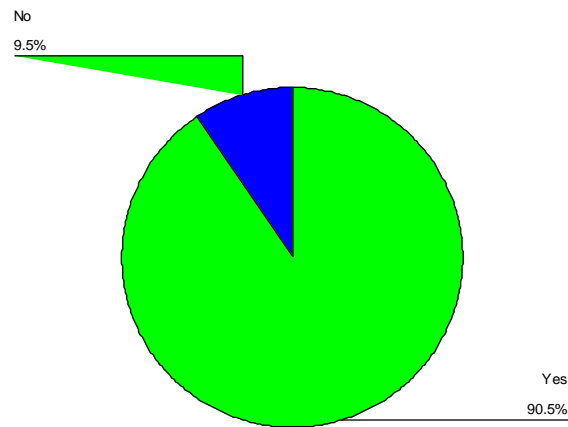


Figure 2 Existence of Internal Audit Department

Internal Auditing Model in Operation

Table 3 Internal Auditing Model in Operation

Model	Frequency	Percent (%)
Centralised model	19	82.6
Widespread model	2	8.7
Delegation model	0	0
Others	2	8.7
Total	23	100.0

Source: Survey, May, 2009

As depicted in Table 3, out of 23 responses received on this item, 19 respondents stated that the centralised model of internal auditing is in use. With this model only the Head Office has a structured internal audit department and it carries out auditing activities for all branches. This forms the highest proportion of 82.6%. Two (2) respondents (representing 8.7%) stated that the widespread model is what is in use in their bank. In the widespread model, audit departments are established in two or more branches of the company. The remaining 8.7% represents other models of internal auditing used by the banks. The two responses on this option are:

- i. Bank of Ghana and External Auditors
- ii. The use of Resident Internal Auditors.

These responses are apparently not models of internal auditing.

Relationship between The IAD of Branch and that of HO

Figure 3 shows the pie chart which depicts the relationship between the internal audit department of the branches and that of the head office. 90% responded that the Head Office audit department co-ordinates all the branches' audit department activities (A) and 10% indicated other relationships than the two options provided exist between the two internal audit departments (C). No bank operates a system whereby branches' internal audit departments plan and perform audit activities independently.

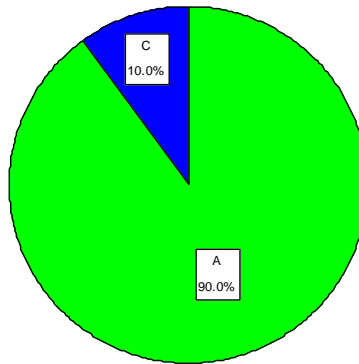


Figure 3 The Relationship between the IAD of Branch and that of Head Office

The use of Branches of Head Office Internal Audit Resources

Table 4 The use of Branches of Head Office Internal Audit Resources

Response	Frequency	Percent (%)
Yes	16	94.1
No	1	5.9
Total	17	100.0

Source: Survey, May, 2009

This item sought to find out from respondents whether branches use head office internal audit resources for specific engagements such as IT auditing, fraud auditing, environmental auditing etc. Table 4 shows that branches of banks practically depend on head office IA resources for specific engagements. About 94.1% of those who responded to this item stated that branches use Head Office internal audit resources for specific engagements.

Objectives of the IA Function

Respondents have identified five (5) objectives of the internal audit function.

These are:

- i. To ensure compliance with bank policies;
- ii. To ensure compliance with Bank of Ghana (BOG) regulations;
- iii. To ensure that general internal controls are operating effectively;
- iv. To ensure efficiency in the operation of the bank;
- v. To ensure that information contained in financial statements of the bank are reliable.

Rating of the Performance of Internal Audit Department

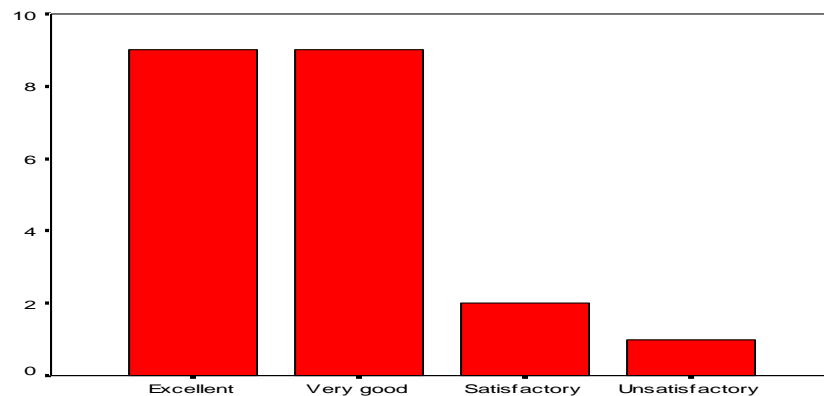


Figure 4 Rating of the Performance of Internal Audit Department

The survey shows a seemingly good rating for the performance of the internal audit department (IAD). Nine (9) respondents each indicated that the internal audit department's performance is excellent and very good respectively. The bar graph (Figure 4) shows these ratings.

Establishing an Internal Audit Department at the Tamale Branch

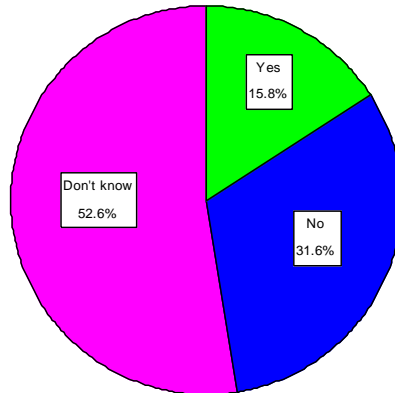


Figure 5 Establishing an IAD at the Tamale Branch

The respondents do not appear to have any hope of having IADs established in branches in which there no IADs. More than half (52.6%) of the respondents to this item did not know whether the bank has any plans of establishing an internal audit department at the Tamale branch. 31.6% said that the bank has no such plans. A small proportion (15.8%) indicated that there are plans of establishing internal audit departments (Figure 5).

Frequency of Visits of the Head Office Internal Auditors to Branches

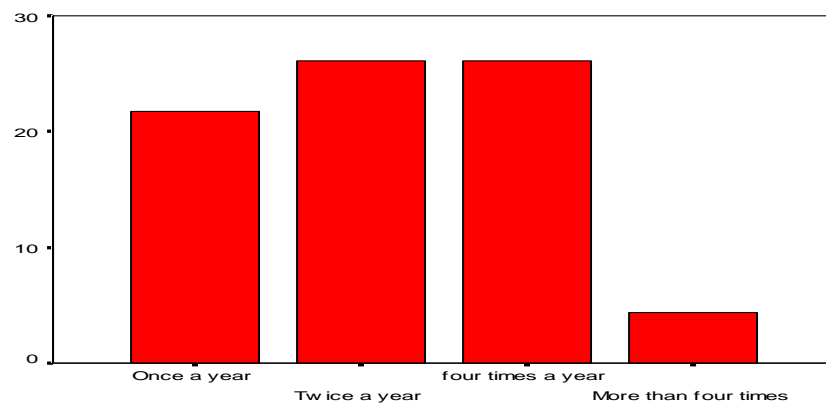


Figure 6 Frequency of visits of the Head Office Internal Auditors to Branches

Figure 6 depicts the frequency of visits by the head office internal audit staff to the branches. The prevalent number of visitations is twice a year and four times a year with the percentages of 28.6% each, followed by once a year with a percentage of 23.8% and more than four times representing 4.8%.

Relationship between Respondents and the Head Office Internal Audit Staff

Table 5 Relationship between Respondents and the Head Office IA Staff

Response	Frequency	Percent (%)
Cordial	17	81.0
Satisfactory	3	14.3
Not applicable	1	4.8
Total	21	100.0

Source: Survey, May, 2009

Discerning from the survey results (Table 5), a cordial relationship exists between the Head Office (HO) internal audit staff and the respondents. This represents the highest proportion of 81% of the respondents while a satisfactory relationship forms 14.3% of the respondents. One respondent representing 4.8% indicated that this is not applicable. The current relationship is a fertile ground for the smooth operation of internal auditing in the banks.

Satisfaction with the Current Internal Audit Arrangement

Almost all respondents are satisfied with the current internal audit arrangements with the HO. Out of the 21 respondents, 20 representing 95.2% said they were satisfied with the internal audit arrangement in which the HO internal audit department provides internal audit services to branches. Only one person is dissatisfied with this arrangement. Table 6 depicts these results.

Table 6 **Satisfaction with the Current Internal Audit Arrangement**

Response	Frequency	Percent (%)
Yes	20	95.2
No	1	4.8
Total	21	100.0

Source: Survey, May, 2009

Suggestions for Improvement in the Internal Audit System

Despite the high level of satisfaction with the current internal audit arrangement, a few respondents provided suggestions for improvement of the shady areas of internal audit practices. The following were the responses received.

- i. An internal auditor should be attached to each branch;
- ii. At least two follow-ups should be made after each audit to ensure that any lapses detected are corrected;
- iii. The internal audit system should be decentralised;
- iv. A staff audit department should be attached to branch for a daily review of activities;

- v. The visits by the internal auditors from head office should be quarterly;
- vi. Audit schedules should be programmed for monthly instead of quarterly snap checks;
- vii. The internal audit system should be responsive to changing situations;

Evaluation of Internal Audit Staff

This item requests respondents to evaluate the internal audit division of the banks in terms of the sufficiency of the number of staff, appropriate qualification of staff and the relevance of their skills and experience. There is a high degree of agreement that the internal audit department is properly staffed to provide a high quality audit service to the banks in Tamale.

Sufficient Number of Staff

Table 7 Sufficient Number of Staff

Response	Frequency	Percent (%)
Yes	18	78.3
No	5	21.7
Total	23	100.0

Source: Survey, May, 2009

From Table 7, it is found that out of the total number of respondents in the survey, 18 (78.3%) believe that the internal audit department has a sufficient number of staff to audit the branches of the bank whiles 5 (21.7%) do not believe that the internal audit department has sufficient number of staff.

The results of the survey in the two banks with internal audit departments in Tamale indicate that the proportion of the internal audit staff to the total number of staff of the bank averages 4.7%. In one of the banks, a branch with the head office in Accra, the IAD has only one (1) internal audit staff compared to the total number of staff of twenty-one (21). In the other bank, the only rural bank in the sample, the IAD has three (3) internal audit staff compared to the total number of sixty-four (64). One of the internal auditors sees this as poor staffing policy for the internal auditing department and concludes that it can be a major setback in achieving the objectives of the department.

Appropriately Qualified Staff

Table 8 Appropriately Qualified Staff

Response	Frequency	Percent (%)
Yes	23	100.0
No	0	0
Total	23	100.0

Source: Survey, May, 2009

All respondents, including the internal audit staff themselves, believe that the internal audit department personnel are appropriately qualified to meet the internal audit needs of the organisation (Table 8).

Staff with Relevant Skills and Experience

Table 9 Staff with Relevant Skills and Experience

Response	Frequency	Percent (%)
Yes	22	95.7
No	1	4.3
Total	23	100.0

Source: Survey, May, 2009

Table 9 shows that twenty-two (22) respondents (95.7%) believe that the staff of the internal audit function have the relevant skills and experience while the remaining 1 respondent (4.3%) does not share this view.

On the whole, there appears to be a high placement of the internal audit staff in terms of their competence in handling the risks to which the banks are exposed.

Constraints of the IA Department

The constraints that seriously impact on the performance of the department have been identified by internal auditors as poor financing, inadequate human resources and lack of equipment. For an effective internal audit system, there must be sufficient funding in relation to the internal audit responsibilities imposed on it by management.

Responsibility for Appointment of Head of IAD

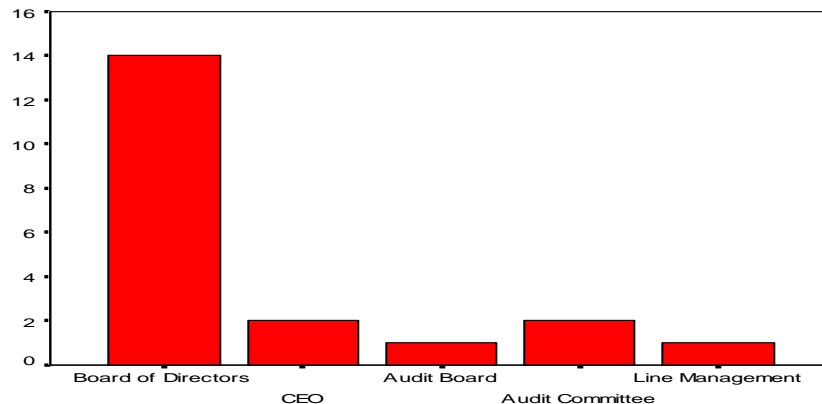


Figure 7 Responsibility for Appointment of Head of IAD

From Figure 7, it is found that the main body responsible for the appointment of the head of IAD is the Board of Directors (BOD) with a total frequency of 14. This is followed by Chief Executive Officer and Audit Committee with 2 each and Audit Board and line Management with 1 each. This is quite a good step towards achieving independence at the IAD.

Responsibility for Appointment of other IA Staff

It is noted in Figure 8 that the Human Resources (HR) Manager is the main appointing unit of the staff of the internal audit department. As many as 15 respondents stated that the HR Manager is the appointing person followed by the head of IA department with 3 respondents and 2 for Audit Committee. However, a joint collaboration between the audit committee and the HR Manager is occasionally used in recruiting the IA staff. In summary, a lower authority than the Board of Directors (BOD) recruits the IA staff.

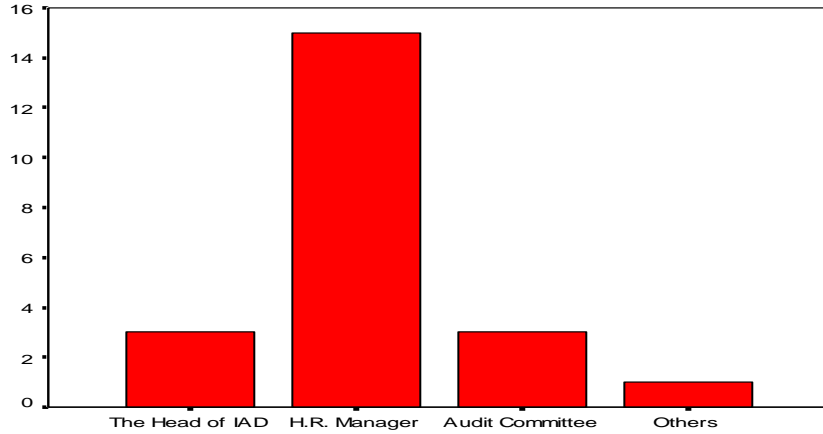


Figure 8 Responsibility for Appointment of Other IA Staff

Existence of Audit Committee

There is a high agreement on the existence of the Audit Committee. 82.6% have a belief about the existence of the Audit Committee (AC) in their banks while the remaining 17.4% do not believe the existence of the Audit Committee. Figure 9 below shows this result.

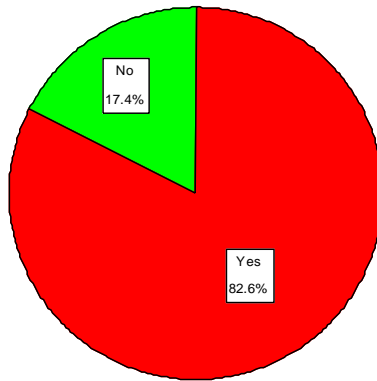


Figure 9 Existence of Audit Committee

All respondents believe that the establishment of the AC will improve upon the independence of the entire internal auditing system of the banks. They therefore welcome the idea of having an AC being established in the banks.

Body to which Audit Committee is Responsible

Table 10 Body to which Audit Committee is Responsible

Response	Frequency	Percent (%)
Board of Directors	10	55.6
Chief Executive Officer	2	11.0
Chairman	1	5.6
Audit Board	5	27.8
Total	18	100.0

Source: Survey, May, 2009

Table 10 shows that there is a quite fair agreement that the AC is responsible to the Board of Directors. Ten (10) respondents representing 55.6% of those who responded to this item indicated that the Audit Committee is responsible to the BOD. About half of this number (27.8%) believes that the AC responds to the Audit Board. Those who believe that the Audit Committee is responsible to the CEO and Chairman of the BOD make up the remaining 16.6%.

Appropriateness of the Composition of the Audit Committee

Table 11 Appropriateness of the Composition of the Audit Committee

Response	Frequency	Percent (%)
No Response	5	21.7
Yes	18	78.3
No	0	0
Total	23	100.0

Source: Survey, May, 2009

From Table 11 above, all those who responded to this item (78.3%) believe that the Audit Committees of their banks have the right composition of knowledge, experience, and representation to perform its roles in ensuring good corporate governance.

Judgement of Independence

Figure 10 shows that there is a high confidence in the independence of the internal audit function in the banking system in Tamale. About 68.4% and 26.3% of the respondents to this item stated that the independence of the IA function is excellent and very good respectively. These two give a cumulative percentage of 94.7%. The remaining percentage of 5.3% mentioned that the independence of the IA function is satisfactory.

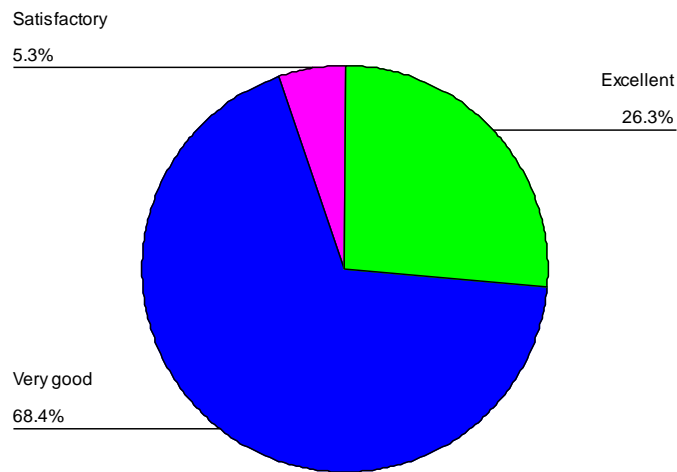


Figure 10 Judgement of Independence

Level of Objectivity

As shown in Table 12, nineteen (19) respondents responding to the item. All the 19 respondents answered that the current IA structure in the banking institutions promotes objectivity, consistency and business understanding. The responses therefore imply a highly objective IA function in the institutions.

Table 12 Level of objectivity

Response	Frequency	Percent (%)
Yes	19	100
No	0	0
Total	19	100

Source: Survey, May, 2009

Independence to choose Transactions and Areas to Audit

There seems to be a high belief by the respondents on the independence of the internal audit function in choosing any transaction or area of interest for audit while performing its duties. Eighteen (18) respondents representing 85.7% believe that the IA department is free to choose any transaction and area of interest to audit while three (3) representing 14.3% do not believe so (Table 13). The survey responses from the internal auditors indicate their satisfaction of the level of independence of the IAD. According to them the IAD has the scope to determine its own priorities and activities.

Table 13 Independence to Choose Transactions and Areas to Audit

Response	Frequency	Percent (%)
Yes	18	85.7
No	3	14.3
Total	21	100.0

Source: Survey, May, 2009

The Body to which IAD Reports

About sixty-two percent (62%) of respondents think that the IAD reports to the Board of Directors while about 10% each think that the department reports to the Audit Committee and other units within and outside the bank. However, some respondents (5%) believe that the IAD reports to both the CEO and the Audit committee (Figure 11). Other bodies to which the IAD reports include:

- i. The Bank of Ghana
- ii. Chief Operating Officer.

The survey indicates a good positioning of the internal audit department in terms of independence. Reporting internal audit findings to a body as high as the BOD and its representative Audit Committee ensures independence of the department.

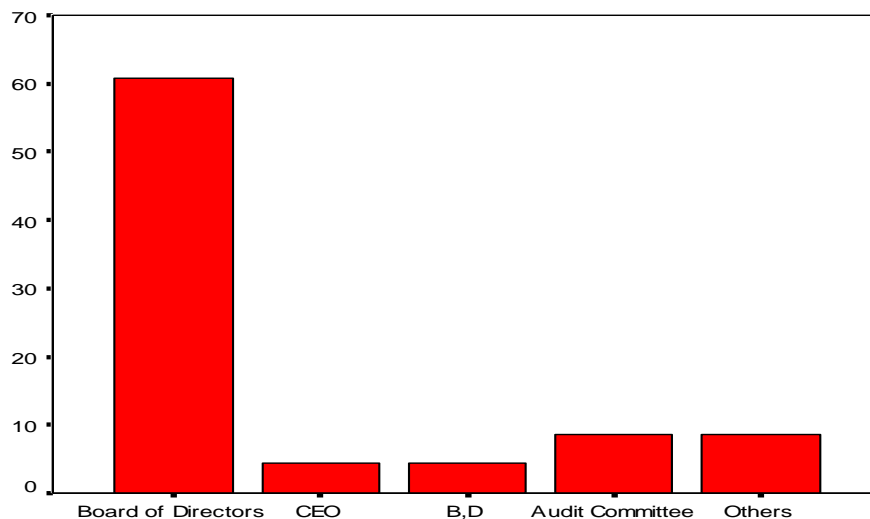


Figure 11 The body to which IAD Reports

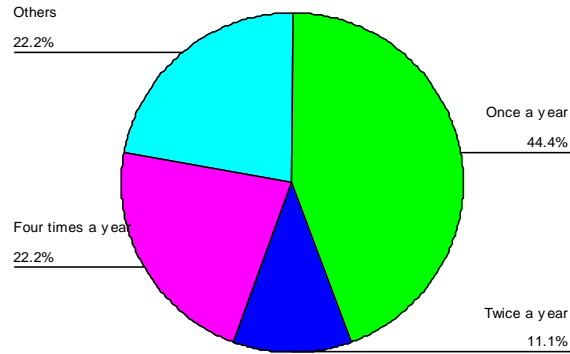


Figure 12 Frequency of IAD's Report

The survey indicates that respondents do not seem to know the frequency with which IAD report to the body to which it is responsible. Figure 12 depicts that 44.4% of the respondents stated that the internal audit department reports on a yearly basis, 22.2% for four times a year and 11.1% for twice a year. Other frequency of reporting other than those mentioned above however exist.

Access to all Levels of the Organisation, Information, Records and Employees

Table 14 Access to all Levels of the Organisation

Response	Frequency	Percent (%)
Yes	17	81.0
No	4	19.0
Total	21	100.0

Source: Survey, May, 2009

From Table 14, 17 respondents think that the IA staff have access to all levels of the organisation whiles the remaining 4 think otherwise. These represent 81% and 19% respectively. However, all respondents are of the view that the internal auditors are allowed access to all necessary information, records and employees.

Table 15 **Extent of Access Information, Records and Employees**

Response	Frequency	Percent (%)
Fully allowed	21	91.3
Partially allowed	2	8.7
Total	23	100.0

Source: Survey, May, 2009

Table 15 depicts that twenty-one (21) respondents representing 91.3% stated that the internal auditors have full access to necessary information, records, employees etc. and only two (2) respondents forming 8.7% stated that the internal auditors have a partial access. Though the two internal auditors in the sample asserted to having access to records, assets and personnel, differed on the extent of the access. While one of them indicated that he is fully allowed access, the other indicated a partial access.

Where audits are conducted with complete and unrestricted access to all sorts of audit evidences such as financial and non-financial records, employees and assets and all levels of the organisation, it enhances the objectivity of the internal auditors and the effective manner in which audits are conducted.

Existence of Conflict of Interest

Table 16 indicates that 21 respondents representing 91.3% believe that there is no conflict of interest situation at the IAD. Those who answered yes however did not state the reasons for their belief of the existence of conflict of interest.

Table 16 Existence of Conflict of Interest

Response	Frequency	Percent (%)
Yes	2	8.7
No	21	91.3
Total	23	100.0

Source: Survey, May, 2009

Internal Auditors Taking on other Assignments

The internal auditors have admitted to taking on other assignments in the banks other than the IA assignments. This may have a serious repercussion on their objectivity as they may be required to make a judgment and report on these assignments that they have personally undertaken. This is a likely occurrence where there are very few internal auditors as observed in banking institutions in Tamale.

Auditing Functions for which Internal Auditors have Personal Responsibility

Internal auditors differ in their responses on the existence of a rule that ensures that an internal auditor cannot audit operations for which they previously had responsibility. While one of them agreed to the bank having such a rule the other stated otherwise. The existence of the rule on auditing operations that IA personnel have had previous responsibility for strengthens the objectivity of the internal audit department.

A testimony of low threat to the objectivity and, for that matter, the independence of the internal audit staff has been shown in the responses of the internal auditors. Both respondents to this item of the questionnaire have never audited functions or activities for

which they have personal responsibility. However, one of them declared that he will do it if management decides so.

Preparation of Audit Plan and Programme

There is a high belief among respondents that the internal audit department prepares audit plans and programmes. In fact, all respondents are of the view that the internal audit department prepares audit plans and programmes. As depicted in Figure 13, sixteen (16) respondents stated that the IA function prepares plans and programmes specific to the branch while one (1) respondent stated that such plans and programmes do not exist. Some respondents (4) do not know whether such plans and programmes exist. There is a 100% agreement by respondents that internal audit plans and programmes are documented before their approval and execution. This suggests that orderly and well thought out plans and programmes are in place at the banks.

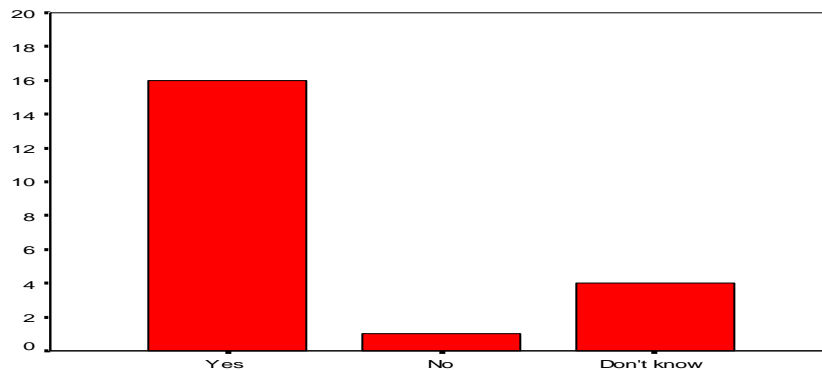


Figure 13 Existence of Specific Plans and Programmes for each Department or Function

From the perspective of the internal auditors, the survey indicates that the internal auditors in the banking institutions in Tamale prepare audit plans and programmes for every activity to be undertaken in the department. It also came to light that separate audit programmes and questionnaire exist for each department or function in the organisation.

These programmes are appropriately documented and approval sought before their execution. The existence of programmes for each department or function in the bank gives an indication of the elaborate manner in which the internal audit activities are undertaken. Documentation of programmes provides a good evidence of internal audit work papers.

Approval for Programmes

Table 17 Approval for Programmes

Response	Frequency	Percent (%)	Cumulative Percent (%)
Yes	20	87	87
No	3	13	100
Total	23	100	

Source: Survey, May, 2009

There is quite a good agreement that internal auditors in banking institutions seek for approval of audit programmes before they are executed. Seeking approval for plans and programmes before executing them gives them credibility and authenticity. From Table 17, 87% of respondents believe that approval for programmes are sought while the remaining 13% do not believe so.

Factors Considered in Preparing the IA Plans and Programmes

Respondents have identified the following as the factors that are taken into consideration in designing the IA plans.

- i. the objectives of the bank;
- ii. the risk to which the bank is exposed;

- iii. strengths and weaknesses in the internal control system; and
- iv. identification of audit areas by service, function and major systems.

Type of Planned Audit Work

Table 18 Proportion of Type of Audit to Planned Audit Work

Type of Audit	Percentage (%)
Audit for public financial statements	5
Audit of the management information systems	15
Operational audit	20
Compliance audit	20
Fraud investigation	20
Risk assessment	15
Other (please specify)	10
Total	100

Source: Survey, May, 2009

Table 18 depicts the percentages of planned audit work that each type of audit takes. From the table, operational audit, compliance audit and fraud investigation are the type of audit most frequently done by the IAD, forming 20% each. These are followed closely by audit of the management information systems and risk assessment, forming 15% each. The least performed type of audit done by internal auditors in the banking institutions is the audit for public financial statements (5%).

Revision of IA Plans and Programmes

The IAD sometimes carries out revisions in the programmes designed to undertake internal audit activities. As per the responses received from internal auditors, in one bank the revision is carried out as and when it is deemed fit whiles in the other it is done semiannually. The response provided in the latter bank on this variable is in correspondence with the response on the frequency of performance review.

Two (2) circumstances have been stated by respondents as the circumstances under which the revision of internal audit plans and programmes is done. These are:

- i. upon completion of a significant part of the audit; and
- ii. upon meeting a difficulty in implementation of the plans and programmes.

Performance Review

The personnel of the IAD periodically review their performance. This ensures that they are right on course to delivering quality consultancy service to the banks and also meeting the objectives they have set for themselves in the audit plans and programmes. The respondents however differ in the frequency of performance review. The review ranges from semiannual to annual reviews.

Scope of IAD to Determine its Priorities and Activities

Figure 14 shows that 95.2% of respondents indicated that the IA department has the autonomy to determine its own priorities and activities while the remaining 4.8% indicated otherwise. This shows that the IAD is highly independent in the choice of its priorities and activities.

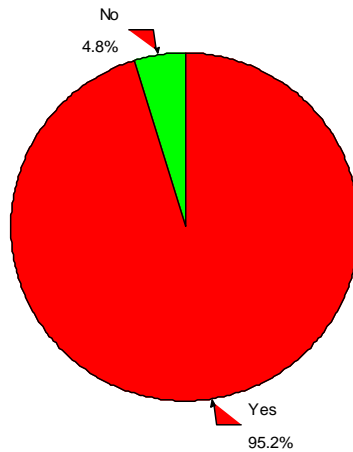


Figure 14 Scope of IAD to determine its priorities and activities

Existence of Internal Audit Charter



Figure 15 Existence of Internal Audit Charter

About 76.2% of respondents agree that there is IA charter in the banking institutions while the 4.8% do not agree to this (Figure 15). This is an indication that there is a strong internal auditing function and that access to information, records, employees etc. is quite impressive. All two respondents who responded to this item welcome the idea of instituting an IA charter in the banking institutions.

Maintenance of Programme of Continuing Professional Education

Table 19 Maintenance of Programme of Continuing Professional Education

Response	Frequency	Percent (%)
Yes	18	85.7
No	3	14.3
Total	21	100.0

Source: Survey, May, 2009

The survey results (in Table 19) show that most banks have programmes of continuing professional education. About 85.7% of respondents have a belief of the existence of the programme while the remaining 14.3% do not believe. The existence of such programmes enhances the competence of the internal audit staff in the banking institutions. The internal auditors have admitted to the banks maintaining programme of continuous professional education for the IA staff. This allows them to be abreast with current developments in the field of internal auditing and thus sharpening their skills in internal auditing.

Judgement of Quality of Work of Internal Auditors

Respondents have rated the performance of the internal auditors highly as per the research data. Figure 16 above depicts that about 71.4% of respondents judge the quality of work done as very good, 19.0% as excellent and 9.5% as satisfactory.

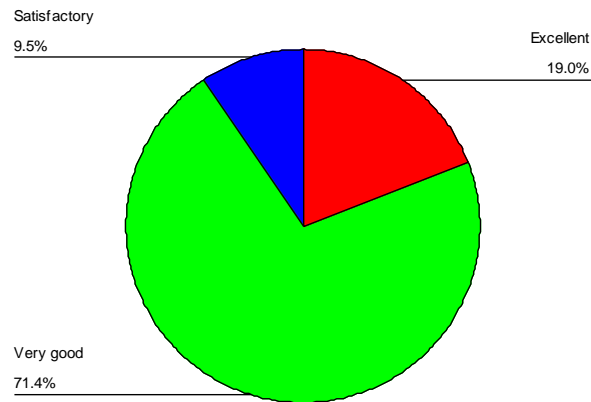


Figure 16 Judgement of Quality of Work of Internal Auditors

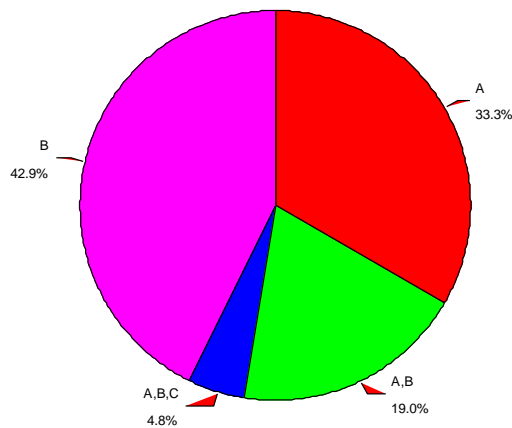


Figure 17 Basis of Judgment of Competence of IA staff

From Figure 17, it can be said that the 33.3% of the respondents judge the competence of the internal audit staff based on the quality and completeness of audit work papers (A); 42.9% on the basis of clarity and comprehensiveness of the internal audit reports (B); 19% on the basis of quality and completeness of audit work papers and clarity and comprehensiveness of the internal audit reports (A,B); and 4.8% on the basis of quality and completeness of audit work papers and clarity and comprehensiveness of the internal audit reports as well as other factors (A,B,C). Timeliness of the internal audit

activeness and reports is the factor stated for the other factors considered in judging the competence of the internal audit staff.

Level of Professional Qualifications of IA Staff

As per the survey results, there seems to be some level of professional pursuit among the IA staff. It was submitted that one of the internal auditors is a member of a professional accounting body and another is a holder of Part 2 of the ICA (G). The least qualification of the internal audit staff is the Higher National Diploma in Accounting.

Adequacy of Salaries of IA Staff

All non-internal audit staff respondents to this item agree that the salaries paid by the banks to IA staff at all levels are sufficient enough to attract and retain internal auditors with the requisite professional skills and qualifications.

Respondents who are internal auditors however have varying responses to this item. One internal auditor sees the current level of salary to be adequate enough enable the banks to attract and retain internal auditors with the requisite professional skills and qualifications. The other internal auditor is however dissatisfied with the current salary and sees it to be too low and wish that something be done about it to have the right caliber of internal audit staff for the IAD. Low salary scales for internal audit staff makes the internal audit department a less attractive place to work.

Factors Considered for Appointment of IA Staff

Varying answers have been given on whether the knowledge of finance and banking is a point for consideration in the appointment of internal audit staff. In one of the banks that have internal audit department in Tamale, this is a major consideration

while in the other such a knowledge is not a factor considered in recruiting internal audit personnel. Auditors could therefore be appointed without them necessarily having background knowledge in finance and banking.

IA Staff taking on Assignments in which they Lack Knowledge

The survey revealed that some internal audit staff are sometimes given audit assignments in which they lack the requisite skills, experience and knowledge to execute them. This can pose a threat to the proper conduct of that assignment.

Use of Professional Standards by IA Department

There is quite a strong belief of the use of professional standards in internal auditing by the IAD of the banking institutions of Tamale. In fact, all respondents believe that the IADs use professional standards on internal auditing. Table 20 indicates that the main professional standards used by the IADs in the banking financial institutions are the Standards for Professional Practice of Internal Audit by the Institute of Internal Auditors (IIA). Of the 23 respondents, 19 representing 82.6% are of the view that the Standards for Professional Practice of Internal Audit are applied to internal auditing activities and the remaining 3 representing 13% believe that both Standards for Professional Practice of Internal Audit and Statements of Auditing Standards are used.

Table 20 Professional Standards used by IA Department

Response	Frequency	Percent (%)
Standards for Professional Practice of Internal Audit	19	82.6
Statements of Auditing Standards	0	0
Both Standards for Professional Practice of Internal Audit and Statements of Auditing Standards	3	13
Government laws	0	0
Others	1	4.4
Total	23	100.0

Source: Survey, May, 2009

Internal auditors, however, do not comply with these standards when activities assigned by management do not purely conform to audit standards.

Frequency of Communication of IA Findings

This was quite a poorly responded item. Table 21 indicates that about 28.6% of respondents failed to respond to it. Of those who responded, 3 each (14.3%) stated that communication of internal audit findings is done twice a year and four times a year respectively, 1 (4.8%) stated that it is done once a year and none stated that the communication is done thrice a year. Some of the other frequencies of communication which forms 38% are as follows:

- i. Monthly;
- ii. As soon as they are ready;
- iii. Regularly;
- iv. Soon after auditing;
- v. Anytime an audit is done at the branch; and
- vi. Almost immediately the report is completed.

Table 21 Frequency of Communication of IA Findings

Response	Frequency	Percent (%)
Once a year	1	4.8
Twice a year	3	14.3
Three times a year	0	0
Four times a year	3	14.3
Others	8	38.1
Non-response	6	28.6
Total	21	100.0

Source: Survey, May, 2009

Content of IA Findings Communicated

Largely, internal audit findings sent to branches are those that relate to the branches specifically. Figure 18 indicates that 16 of the respondents stated that they receive IA findings that are specific to their branches while 5 of them stated that they receive findings on the whole company even when they do not relate to the branches.

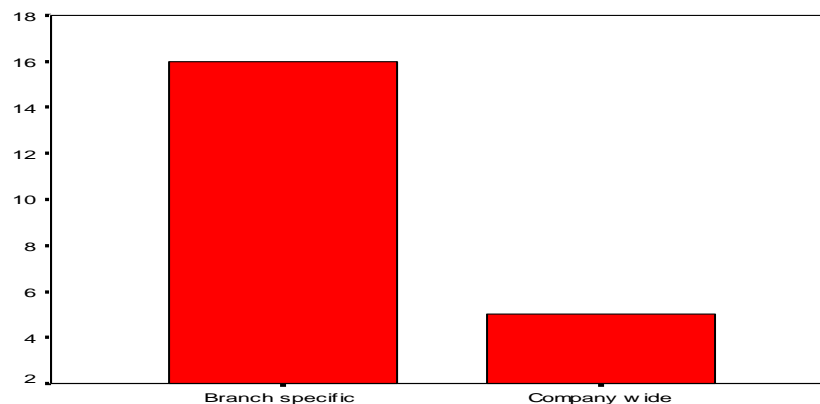


Figure 18 Content of IA Findings Communicated

Recipients of Branch IA Reports

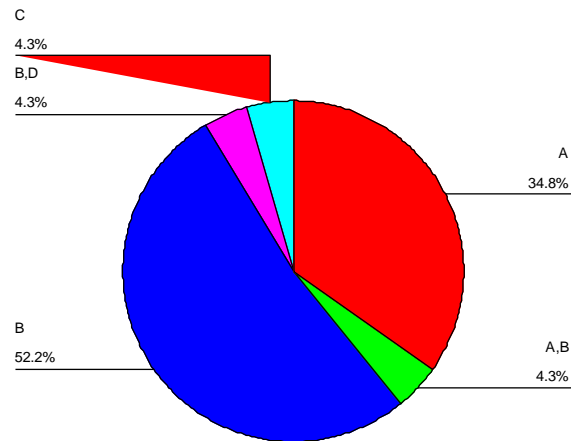


Figure 19 Recipients of Branch IA Reports

Branch Managers (B) are the main recipients of internal audit reports, forming 52.2% of the respondents. This is followed closely by officials who have both the responsibility and authority to implement suggested changes (A) with a proportion of 34.8%. Those who mentioned that reports are sent exclusively to a special branch audit committee (C) form 4.3%. The survey, however, shows that sometimes internal audit reports are sent to more than one recipient at a time. The combination of recipients observed from the study include both officials who have the responsibility and authority to implement suggested changes and branch managers (A, B) i.e. 4.3%; and branch managers and officers affected by the report (B, D) i.e. 4.8%. This is depicted in Figure 19.

Content of IA Reports

Internal audit reports have been rated highly on the grounds that they contain recommendations for remedial action. There is a hundred percent (100%) agreement among respondents on this item that recommendations for remedial action are a

component of IA report. The reports also contain a statement on the status of all audits stated on the internal audit programmes. Statement on the status of audit work-in-progress provides a sharp view of the extent to which the audit programme has been executed. The survey also indicates that the reports also contain summaries and conclusions of all audits concluded during the period covered by the reports.

Opportunity to Respond to IA Findings

Table 22 Opportunity to Respond to IA Findings

Response	Frequency	Percent (%)
Yes	20	95.2
No	1	4.8
Total	21	100.0

Source: Survey, May, 2009

The results in the table above (Table 22) show that most officers in the banks affected by IA findings have the opportunity to respond to the findings, whether negative or positive. Only one person thinks that the officers do not have the chance of answering IA queries.

Person Responsible for Responding to IA Queries

From the results displayed in the bar graph (Figure 20), internal audit queries in banking institutions in Tamale are answered mostly by the branch managers (B). This forms 47.6% of the respondents followed by the officials who have both the responsibility and authority to implement suggested changes (A) with 19%, the combination of branch manager and officer affected by the IA report (B, D) forming 14.3% and the officer affected by the IA report (D) and a combination of the officials

who have both the responsibility and authority to implement suggested changes and branch manager (A, B) forming 4.8% each. The study again indicates that the recipients of the IA reports are effectively the persons that respond to the queries raised in the reports.

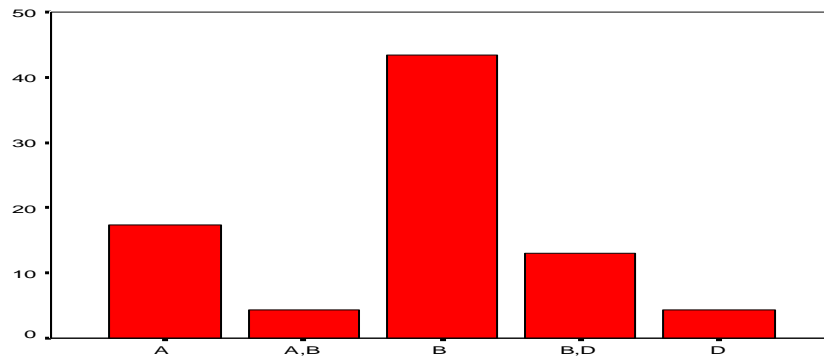


Figure 20 Person Responsible for Responding to IA Queries

It came to light that IA reports may be sent to both the branch manager and an officer within the branch who is either affected by the report or has the responsibility and authority to implement suggested changes.

Person to whom the Head of IAD Periodically Report

Table 23 Person to whom Head of IAD Periodically Report

Response	Frequency	Percent (%)
No response	4	19
Board of Directors	10	47.6
Both Board of Directors and Chief Executive Officer	1	4.8
Executive Officer		
Chief Executive Officer	2	9.5
Audit Board	1	4.8
Audit Committee	2	9.5
Others	1	4.8
Total	21	100.0

Source: Survey, May, 2009

Table 23 indicates that a significant proportion (47.6%) of heads of the IAD in the banking institutions in Tamale reports to the Board of Directors (BOD). Those who report to the Chief Executive Officer (CEO) and/or its representative Audit Committee form the next largest proportion of 19% (9.5% each). The study also indicates that the head of internal audit department may however have a dual reporting relationship with both the BOD and the CEO (4.8%).

Response to this item indicates that most of the heads of IAD in the banks (42.9%) report semi-annually to their superiors. 28.6% report on annual basis, and the remaining percentage of 28.6% report on quarterly or monthly basis. Figure 21 below depicts these results.

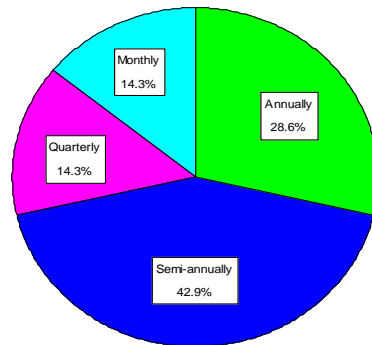


Figure 21 Frequency of Head of IA Department's report

Corrective Measures on IA Findings

The survey results show that there is wide belief among respondents that corrective actions are taken by management and staff of the banks on adverse IA findings. Table 24 shows that 20 respondents representing 95.2% believe that corrective actions are taken on adverse findings. All respondents to this item agree that the IA function makes follow-

ups on the recommendations it makes on adverse findings. This indicates a high commitment to ensuring adherence to internal control by the staff of the IA function.

Table 24 Corrective Measures on IA Findings

Response	Frequency	Percent (%)
Yes	20	95.2
No	1	4.8
Total	21	100.0

Source: Survey, May, 2009

Consideration of IA Reports by Management

There seems to be quite a disregard for the reports and results of the internal audit department (IAD). One of the internal auditors has complained that the reports produced by the IAD are not given prompt and independent consideration by the body to which they report. This affects the timely implementation of the internal audit findings.

Power to Impose Punishment and Penalties

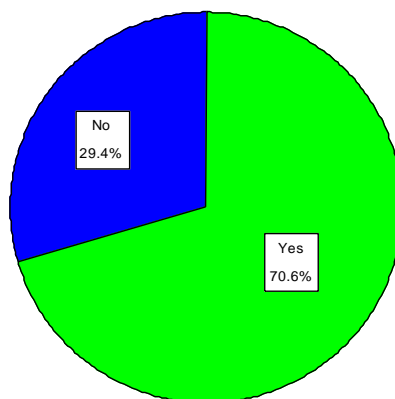


Figure 22 Power to Impose Punishment and Penalties

Figure 22 above depicts that 70.6% of the respondents believe that the internal audit department has the power to impose punishment and penalties for any serious breaches on the internal controls. This is an indication of a well empowered IA system.

Outsourcing of IA Activities

The concept of outsourcing of internal auditing activities appears to be alien to all internal auditors in banks in Tamale which have IAD. The results show that banking institutions in Tamale have never outsourced the internal audit function or activities to any independent outside professional or audit firm.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

Introduction

This chapter contains the summary of the findings from the analysis made in chapter four, conclusion and recommendations for improvements in the internal audit activities in the banking institutions in Tamale.

Summary

The study was conducted to evaluate the extent to which the current and planned internal audit function is positioned to contribute towards one of the major objectives of ascertaining good corporate governance in the banking institutions for accountability and service improvement. From the study conducted, the findings of the analysis made in the fourth chapter can be summarised as follows.

- Most of the banks (90.5%) have internal audit departments at the Head Offices. In Tamale, only two banks have internal audit departments.
- The internal auditing model used by the banks is the centralised model (82.6%). In the banks that have IAD, the Head Office audit department co-ordinates all the branches' audit department activities. Branches basically use head office audit resources for specific engagements.
- Internal Auditors perform their audit activities on the basis of the internal audit charter.
- The banks staff have a very high respect for the performance of the internal audit activities in Tamale.

- Mainly, Head Office internal audit staff in banks in which there are no IADs at the branches visit the branches a maximum of four times a year. There is quite a cordial relationship (81%) between the HO internal audit staff and the officers at the banks in Tamale.
- The IAD is constrained in the areas of finance, human resources, and equipment.
- There is quite a good agreement among the non-audit banking staff on the sufficiency of the numerical strength of the internal audit staff. However, the proportion of the IA staff to the size of the bank staff is quite low (4.7%). The IAD staff are believed to be having the relevant qualification, skills and experience to enable them handle IA functions competently.
- The head of the IAD is appointed more frequently by the BOD while the other IAD staff are appointed by the Human Resource (HR) Manager.
- There is an appreciable belief of the existence of Audit Committee (AC) in banks that have branches in Tamale (82.6%). The committees are responsible to the BOD (55.6%). ACs are believed to have the right mix of knowledge, experience and representation of major stakeholders to conduct its oversight responsibilities (78.3%).
- The independence of the internal audit department has been given quite a good rating by the bank staff (94.7%). Current IA structure in the banking institutions promotes objectivity, consistency and business understanding which further enhance its independence.
- The IAD reports mainly to the BOD (62%) and its representative Audit Committee (10%) which are well positioned to ensure the independence of the

IAD. The department has some degree of independence (85.7%) to choose what transactions and areas of the organisations it wants to audit.

- Internal auditors have a high degree of access (91.0%) to audit evidences in all forms. However, some of them have had experiences of management not allowing them access to some of the records that they classify as *highly confidential*.
- Very few conflict of interest situations (9.5%) have been observed in the internal audit department.
- There exists a rule that ensures that internal auditors in the banks cannot audit operations for which they have previous responsibility. However, some internal auditors have admitted to breaking this rule when asked by management to do so.
- It appears that there are audit plans and programmes for each department of function within the banking institutions. Approval is sought (87%) from management before the execution of the plans and programmes.
- Operational audits, compliance audits and fraud investigations (forming 60%) are the type of audit most frequently done by the IAD.
- Internal audit charter exists in the banking institutions. This empowers the IAD to determine its own priorities and activities (95.2%).
- Most banks (85.7%) have programmes of continuing professional education under which internal audit staff's skills are developed.
- The work done by internal auditors has been judged to be very good (71.4%). The judgement of the quality of the work is based on the clarity and comprehensiveness of the internal audit reports and also on the quality and completeness of audit working papers.

- Internal auditors are quite satisfied with their salary levels. However, non-internal audit personnel at the banks have asserted that the salary of internal auditors is adequate enough to attract and retain them.
- Professional standards are highly used in the conduct of internal audit activities in the banks though an internal audit staff has admitted to non-compliance with the standards on occasions. The standards mainly are the Standards for the Professional Practice of Internal Audit by the IIA (82.6%).
- There are variations in the frequency of internal audit reports. The reports sent to branches are those that relate to the branches. Branch managers are the main recipients of internal audit reports (52.2%) and also responsible for answering any queries in the reports.
- Corrective measures are often taken on adverse internal audit findings (95.2%). Follow-ups are made by internal audit staff on the recommendations they make to management on audit findings.
- It is widely believed (70.6%) that the IAD has the power to impose punishment and penalties on staff for misconducts.
- Outsourcing of internal audit activities is not a known practice in the banking institutions in Tamale.

Conclusion

From the results of the study, the following conclusions can be drawn.

- Only few banks in Tamale have IADs at the branch level. The banks in Tamale mainly rely on the internal audit staff of their Head Offices who carry out the internal auditing activities for the branches. A somewhat cordial relationship

exists between the HO internal audit staff and the branch staff. The IADs of the banks appear to be well placed to take part effectively in ensuring good corporate governance. The IADs are however plagued with some constraints which may pose a threat to their ability to conduct proper audit activities. These include financial, understaffing and lack of equipment.

- The strength of the internal audit function has been enhanced by the existence of the Audit Committee. Most of the banks have an Audit Committee which appropriately reports to the BOD. The membership of the committee is drawn from all major stakeholders thus ensuring a good representation on the committee.
- It has been realised that the IAD, both at the HO and branch, is highly independent on almost all the variables used in the research. The objectivity of the IA staff has been judged to be very high. They have a good access to the audit evidence and also report to the BOD and its Audit Committee. In addition, the IA staff have access to all levels of the organisation through which they address their concerns. Again, the rotation of the staff of the departments aids in the level of objectivity. However, some of the internal audit personnel take on other organisational assignments than those in the IAD which may pose a threat to their independence.
- The internal audit staff conduct their audits in quite an orderly manner. These activities are performed in accordance with the audit charter, plans and programmes the approval of which is sought before implementation. As appropriate, such factors as the objectives of the bank, strengths and weaknesses in the internal control system and the risk to which the bank is exposed are some

of the factors considered in designing the audit plans and programmes. IA work performed are geared towards ensuring operational efficiency; ensuring compliance with bank policies and BOG regulations; and fraud investigation. The IAD, in line with the AS 1311, conducts ongoing reviews of its performance on a periodic basis.

- In accordance with AS 1200, the competence of the internal audit staff is quite impressive. The existence of continuing professional education in the banks promotes the knowledge, skills and other competences needed by the IA staff in the performance of the work. Qualitative and complete audit work papers are prepared and audit reports presented are clear and comprehensive. However, the internal audit staff do not seem to be satisfied with their salaries levels which poses a threat to the ability of the IAD to attract and retain audit staff for the department. Again, some of the internal audit staff accept to do assignments in which they lack the requisite skills, experience and knowledge to execute which may affect their competence.
- Though the internal auditing services at the banks in Tamale are performed in accordance with some standards, it is not exactly in accordance with the Standards for the Practice of Internal Auditing by IIA as recommended by the IIA Code of Ethics. In instances where assignments given by management do not purely conform to the standards, noncompliance with the standards is observed.
- Internal audit reports submitted to management and other recipients are quite accurate, objective, clear, complete and timely. The reports are largely presented in line with the IIA standards of practice. Corrective measures on internal audit

findings are provided in the reports. Prompt attention is given to the reports of the IA findings by management and also persons who are affected by the internal audit findings have the opportunity of reacting to the findings.

- No local internal auditing standards exist in Ghana for the corporate sector. The internal auditing services are conducted to a large extent on international auditing standards.

Recommendations

The following recommendations are made for improvement in the performance of internal auditing services in the banking institutions in Tamale and the country as a whole.

- New challenges that are faced by internal auditors in banking institutions require them to acquire the necessary skills and competencies on a continuous basis. This makes it necessary for them to place them on a learning path so that they could update themselves with new developments. The continuing professional education programmes for internal audit staff at the banks should be given more attention so as to increase their academic and professional qualifications, experience and skills. This will promote the competency of the audit staff which in turn determines their efficiency in designing a more systematic and disciplined approach to the evaluation and improvement of the management and control of the risk to which the banks are exposed and the entire corporate governance process.

- Internal Audit Departments should be established in every branch of the banking institutions or at least an internal audit staff should be attached to the branches. Though this may bring in additional cost by way of salary and maintenance of audit resources, it will improve the risk management and control of the banks and also make the internal audit staff more responsive to the audit issues of the banks and attend to the auditing activities more swiftly.
- The management of the banks should ensure strict adherence to the Standards for the Professional Practice of Internal Auditing by the Institute of Internal Auditors. The internal audit charter of the banks should have a provision that requires a disclosure of noncompliance with the internal auditing standards. This will go a long way to promote quality audit work that is systematic, objective and done in accordance with evidence.
- The internal audit departments both at the HO and the branches should be given more autonomy to choose transactions and area of the bank for audit. The staff should be allowed a complete and unrestricted access to all forms of audit evidence including management representations, employees, assets, records and all parts of the organisation.
- The internal audit department should have adequate funding and provision of resources so as to meet the demands of modern auditing. The funds allocated to the department should be in relation to the audit responsibilities that are assigned. This will enable the IAD to acquire the necessary equipment as well as motivate and developing the skills of its staff in a way that positions them to conduct quality audit. The use of appropriate technology in auditing will also be enhanced.

It is my greatest hope that if these recommendations are implemented, the internal auditing function in the banking institutions will be well placed in a position that enables it to perform its functions effectively.

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APPENDIX A

QUESTIONNAIRE FOR MANAGERS, ACCOUNTANTS/OPERATIONS OFFICERS, TELLERS AND OTHERS

DEPARTMENT OF ACCOUNTING AND FINANCE SCHOOL OF BUSINESS UNIVERSITY OF CAPE COAST

This is questionnaire on the research topic **The Practice of Internal Audit in Banking Institutions in Tamale**. The research is strictly for academic purposes and I pledge to treat any information provided on this questionnaire with strict confidentiality.

Your responses to this questionnaire would be much appreciated and help me achieve the research objective. Thank you.

Please provide answers to the questions that follow by ticking [√] or filling in the gaps as appropriate.

SECTION A – ORGANISATIONAL INFORMATION

1. Name of Bank
2. Position of respondent in organisation
3. Is the bank foreign or locally owned?
4. Is the bank listed on the Ghana Stock Exchange? Yes [] No []
5. Is the bank a branch? Yes [] No []

SECTION B – INTERNAL AUDIT DEPARTMENT

6. Does the bank have internal audit department? Yes [] No []
7. If no, will you prefer an internal audit department in your branch? Yes [] No []
8. Indicate which internal auditing model operates in the bank.

	Tick(√)
Only the Head Office has a structured internal audit department, and it carries out auditing activities for all branches (centralised model)	
A new branch is purposely established to perform auditing activities for the whole company (delegation model)	
Audit departments are established in two or more branches of the company (widespread)	
Others(please specify):	

9. What is the relationship between branch audit departments and that of Head Office?

	Tick(√)
Head Office audit department co-ordinates all the branches' audit department activities	
Branches' audit departments plan and perform audit activities independently	
Others (please specify):	

10. Do branches use Head Office audit resources for specific engagements (IT auditing, fraud auditing, environmental auditing etc)? Yes [] No []

11. How will you rate the performance of the internal audit department with regards to the risk exposure of the bank?

	Tick(√)
Excellent	
Very good	
Satisfactory	
Unsatisfactory	

12. Does the bank have future plans of establishing internal audit departments at the Tamale branches? Yes [] No [] Don't know []

13. How often do internal auditors at the Head Office visit your branch?

.....

14. What is the relationship between you and the Head Office internal audit staff?

	Tick(√)
Cordial	
Satisfactory	
Unsatisfactory	
Strained	
Not applicable	

15. Are you satisfied with the current internal audit arrangement with your Head Office?

Yes [] No []

22. If no, do you think that it is necessary to have it? Yes [] No []
23. Do you believe that the audit committee has the right composition of knowledge, experience, and representation to perform its roles? Yes [] No []

SECTION D – INDEPENDENCE

24. How will you judge the independence of the internal audit department?

	Tick(√)
Excellent	
Very good	
Satisfactory	
Unsatisfactory	

25. Do you believe that the current structure of internal audit promotes objectivity, consistency and business understanding? Yes [] No []
26. While the audit function performs its duty, do you believe that, it is free to choose any transaction or area of interest for audit? Yes [] No []
27. To whom does the head of internal audit department periodically report? Please indicate the frequency.

	Tick(√)	Frequency
Board of Directors		
Chief Executive Officer		
Chairman of the BOD		
Audit Board		
Audit Committee		
Line Management		
Others (please specify):		

28. Do internal audit staff have access to all levels of the organisation? Yes [] No []
29. Do you believe there is a conflict of interest situation at the internal audit department?
Yes [] No []
30. If yes, give reasons
-

SECTION E – AUDIT PLAN AND PROGRAMME

31. Does internal audit department prepare any audit plans and/or programmes?

Yes [] No []

32. If yes, are there specific plans and/or programmes for your branch and other branches? Yes [] No [] Don't know []

33. Do you think approval is sought and received of audit programmes before being executed? Yes [] No []

34. Does the internal audit department have the scope to determine its own priorities and activities? Yes [] No []

35. Are internal auditors allowed access to all necessary information, records, employees, etc, to come to an informed judgment in their audit work?

Yes [] No []

36. If yes, what is the extent of access?

Fully allowed		Partially allowed		Not allowed	
---------------	--	-------------------	--	-------------	--

37. Does the bank have an internal audit charter (i.e. guidelines for internal audit procedures)? Yes [] No []

38. If no, do you think that the bank needs to have it? Yes [] No []

39. Are internal audit plans and/or programmes documented? Yes [] No []

SECTION F – COMPETENCE OF INTERNAL AUDIT STAFF

40. Does the bank maintain a programme of continuing professional education for its internal audit staff? Yes [] No []

41. How will you judge the quality of work done by internal audit staff?

	Tick(√)
Excellent	
Very good	
Satisfactory	
Unsatisfactory	
Very poor	

42. On what basis do you judge the competence of the internal audit staff?

	Tick(√)
Quality and completeness of audit work papers	
Clarity and comprehensiveness of the internal audit reports	
Others (specify):	

43. Are salary levels sufficient to allow the bank to attract and retain auditors with the requisite professional skills and qualifications? Yes [] No []

SECTION G – PROFESSIONAL AUDITING STANDARDS

44. Do you believe professional auditing standards are used by internal audit department?
 Yes [] No []

45. If yes, which standards?

	Tick(√)
Standards for Professional Practice of Internal Auditing	
Statements of Auditing Standards	
Government laws (please specify):	
Others (please specify):	

SECTION H – REPORTING AND FOLLOW-UPS

46. How often are reports of internal audit findings communicated to you?

47. Are reports received from internal audit function on company wide internal audit findings or findings specific to the Tamale branch only? Yes [] No []

48. To whom are audit reports relating to the branch routed?

	Tick(√)
Officials who have both the responsibility and authority to implement suggested changes.	
Branch Manager	
Special Branch Committee	
Officer affected by report	
Others (please specify):	

49. Do internal audit reports include recommendations for remedial action?

Yes [] No []

50. Who has the responsibility of responding to internal audit queries?

	Tick(√)
Officials who have both the responsibility and authority to implement suggested changes.	
Branch Manager	
Special Branch Committee	
Officer affected by report	
Others (please specify):	

51. To whom does the head of internal audit department periodically report? Please indicate the frequency.

	Tick(√)	Frequency
Board of Directors		
Chief Executive Officer		
Chairman of the BOD		
Audit Board		
Audit Committee		
Line Management		
Others (please specify):		

52. Do you have the opportunity to respond to the findings of the internal audit on your work? Yes [] No []

53. Do you feel that corrective measures are usually taken as a result of weaknesses noted by the internal audit Department? Yes [] No []

54. Do you believe that, the head of internal audit monitors and follows-up action taken by management to recommendations made by the audit function? Yes [] No []

55. Does the internal audit department have the power to propose suggestion on punishment and power to impose penalties? Yes [] No []

Thank you very much for answering the questions!!!

APPENDIX B

QUESTIONNAIRE FOR INTERNAL AUDITORS

DEPARTMENT OF ACCOUNTING AND FINANCE

SCHOOL OF BUSINESS

UNIVERSITY OF CAPE COAST

This is questionnaire on the research topic **The Practice of Internal Audit in Banking Institutions in Tamale**. The research is strictly for academic purposes and I pledge to treat any information provided on this questionnaire with strict confidentiality.

Your responses to this questionnaire would be much appreciated and help me achieve the research objective. Thank you.

Please provide answers to the questions that follow by ticking [] or filling in the gaps as appropriate.

SECTION A – ORGANISATIONAL INFORMATION

1. Name of Bank
2. Position of respondent in organisation
3. Is the bank foreign or locally owned?
4. Is the bank listed on the Ghana Stock Exchange? Yes [] No []
5. Is the bank a branch? Yes [] No []

SECTION B – INTERNAL AUDIT DEPARTMENT

6. Indicate which internal auditing model operates in the bank.

	Tick(<input checked="" type="checkbox"/>)
Only the Head Office has a structured internal audit department, and it carries out auditing activities for all branches (centralised model)	
A new branch is purposely established to perform auditing activities for the whole company (delegation model)	
Audit departments are established in two or more branches of the company (widespread)	
Others(please specify):	

7. What is the relationship between branch audit departments and that of Head Office?

	Tick(√)
Head Office audit department co-ordinates all the branches' audit department activities	
Branches' audit departments plan and perform audit activities autonomously	
Others (please specify):	

8. Do branches use Head Office audit resources for specific engagements (IT auditing, fraud auditing, environmental auditing etc)? Yes [] No []

9. Does the bank have an internal audit charter (i.e. guidelines for internal audit procedures)? Yes [] No []

10. If no, do you think that the bank needs to have it? Yes [] No []

11. What is the total number of employees in your organisation?

12. What is the total number of internal audit staff?

13. How often do staff of the internal audit department shift within the department?

.....

14. Do you think that the bank's audit department or divisions have;

i. A sufficient number of staff Yes [] No []

ii. Appropriately qualified staff Yes [] No []

iii. Staffs that have relevant skill and experience to risk identification and planning methodology to deliver a high quality audit services? Yes [] No []

15. Which of the following constraints seriously impact on the performance of the internal audit department? - (may tick more than one)

	Tick(√)
Human Resource	
Financial	
Equipment	
Others (please specify):	

16. What are the objectives of the internal audit function in the bank?

.....

SECTION C – AUDIT COMMITTEE

17. Does the bank have an audit committee? Yes [] No []

18. To which body/person within the organisation is it responsible?

	Tick(√)
Board of Directors	
Chief Executive Officer	
Chairman	
Audit Board	
Line Management	
Others (specify):	

19. How often does the audit committee convene meetings?

20. Do you believe that the audit committee has the right composition of knowledge, experience, and representation to meet its roles? Yes [] No []

SECTION D – INDEPENDENCE

21. Is the independence of the internal audit department assured? Yes [] No []

22. Does the internal audit department have the scope to determine its own priorities and activities? Yes [] No []

23. Do you have access to all records, assets and personnel necessary for the proper conduct of your audits? Yes [] No []

24. If yes, what is the extent of access?

Fully allowed		Partially allowed		Not allowed	
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25. If no, give reasons.

.....

26. Have you ever been involved in a conflict if interest situation? Yes [] No []

27. If yes, how did you resolve it?

	Tick(√)
Disclosed it to Management	
Dealt with it personally	
Others (please specify)	

28. Has your independence or objectivity ever been impaired? Yes [] No []

29. If yes, give reasons.

.....

.....

30. How did you resolve it?

	Tick(√)
Disclosed it to Management	
Dealt with it personally	
Others (please specify):	

31. Do you have access to all levels of the organisation? Yes [] No []

32. Are salary levels sufficient to allow the bank to attract and retain auditors with the requisite professional skills and qualifications? Yes [] No []

33. Do you have any other work assignments within the bank in addition to the internal audit? Yes [] No []

34. Who is responsible for appointing the head of internal audit department in your organisation?

	Tick(√)
Board of Directors	
Chief Executive Officer	
Chairman of the BOD	
Audit Board	
Audit Committee	
Line Management	
Others (please specify):	

35. Who recruits the other internal audit staff?

	Tick(√)
The Head of Internal Audit Department	
The Human Resource Manager	
The Chief Executive Officer	
The Audit Committee	
Others (Please specify):	

36. Have you ever encountered any threat to your independence as an internal auditor?

Yes [] No []

37. Does a rule exist to ensure that auditors cannot audit operations for which they previously had responsibility? Yes [] No []

38. a. Do you sometimes audit functions or activities for which you have personal responsibility? Yes [] No []

b. If yes, under what circumstance?

	Tick(√)
When management decides	
When no other audit staff can undertake the audit	
When I decide	
Others (please specify):	

39. To whom does the head of internal audit department periodically report? Please indicate also the frequency?

	Tick(√)	Frequency
Board of Directors		
Chief Executive Officer		
Chairman of the BOD		
Audit Board		
Audit Committee		
Line Management		
Others (please specify):		

SECTION E – AUDIT PLAN AND PROGRAMME

40. Has the internal audit department designed an overall audit plan for identifying areas of risk? Yes [] No []

41. Do programmes and questionnaire exist for each department or function? Yes [] No []

42. Does the internal audit department prepare audit plan and / or programme? Yes [] No []

43. Are your audit programmes documented? Yes [] No []

44. Do you seek and receive approval for audit programmes before executing them? Yes [] No []

45. How often does the internal audit department review its performance?

	Tick(√)
Annually	
Semiannually	
Quarterly	
None	
Others (please specify):	

46. Indicate which of the following you consider in preparing the audit plan?

	Tick(√)
The objectives of the organisation	
The objectives of the internal audit	
The risks to which the organisation is exposed	
The plans of external audit	
Changes in structures or systems in the organisation	
Management concerns and expectations	
Strengths and weaknesses in the internal control system	
Identification of audit areas by service, function and major systems	

47. How often are internal audit programmes revised?

	Tick(√)
Monthly	
Quarterly	
Semiannually	
Never revised	
Others (specify):	

48. Under what circumstance will the audit programme be revised?

	Tick(√)
Upon completion of a significant part of the audit	
Upon meeting a difficulty in implementation	
Others (specify):	

49. Do you prepare audit programmes for each department or function?

Yes [] No []

50. How much of planned annual auditing activity work (in percentage) is devoted to the following type of audits?

Financial audit for public financial statements	
Audit of the management information systems	
Operational audit	
Compliance audit	
Fraud investigation	
Risk assessment	
Other (please specify)	
Total	100%

SECTION F – COMPETENCE OF INTERNAL AUDIT STAFF

51. Please indicate the highest and the lowest level of professional qualifications of internal audit staff.

Highest level	
Lowest level	

52. Are your audit objectives often achieved? Yes [] No []

53. Is any staff of the internal audit unit a member of a professional body (e.g. ICA, ACCA, and IIA)? Yes [] No []

54. Is the knowledge of finance and / banking a factor for consideration in appointing internal audit staff? Yes [] No []

55. Does the institution maintain a programme of continuing professional education for its internal audit staff? Yes [] No []

56. Have you ever been given an audit assignment for which you lack requisite knowledge? Yes [] No []

SECTION G – PROFESSIONAL AUDITING STANDARDS

57. Are your auditing procedures based on any standards? Yes [] No []

58. If yes, which standards?

	Tick(√)
Standards for Professional Practice of Internal Auditing	
Statements of Auditing Standards	
Government laws (please specify):	
Others (please specify):	

59. Have there ever been situations when the standards have not been complied with? Yes [] No []

60. If yes, give reasons.....

SECTION H – REPORTING AND FOLLOW-UPS

61. Are your audit reports or results given prompt and independent consideration?
Yes [] No []
62. Does the internal audit report contain the status of all audits on the internal audit programme?
Yes [] No []
63. Does the internal audit report contain the summaries and conclusions of all audits completed during the period?
Yes [] No []
64. Does your audit report include a recommendation for remedial action?
Yes [] No []
65. To whom are audit reports routed?

	Tick(√)
Officials who have both the responsibility and authority to implement suggested changes.	
Audit Committee	
Chief Executive Officer	
Board of Directors	
Others (please specify):	

SECTION I – OUTSOURCING OF INTERNAL AUDIT FUNCTION

66. How often does the bank outsource its internal audit function or activities to independent outside professionals or audit firms?
67. If the bank outsources the responsibility for internal audit function, does the outside contractor remain independent and not act in a capacity equivalent to management?
Yes [] No []
68. Does the arrangement comply with the auditing standards? Yes [] No []
69. On what grounds is internal audit work outsourced?

	Tick(√)
Lack of expertise by the institution’s internal audit staff.	
Lack of independence by the institution’s internal audit staff.	
Complex nature of work to be done	
Others (please specify):	

70. In which areas of the institution’s activities is outsourcing done?

	Tick(√)
Information technology	
Fiduciary activities	
Mortgage banking activities	
Capital market activities	
Others (please specify):	