

UNIVERSITY OF CAPE COAST

**AN ASSESSMENT OF THE EFFICIENCY AND EFFECTIVENESS OF
INTERNAL AUDIT FUNCTION OF GHANA WATER COMPANY,
CAPE COAST**

MOSES BUDUOTCHERE

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INTERNAL AUDIT FUNCTION OF GHANA WATER COMPANY, CAPE
COAST

BY

MOSES BUDUOTCHERE

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Distance Education, University of Cape Coast, in partial fulfilment of the
requirements for the award of Master of Business Administration in
Accounting

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DECLARATION

Candidate's Declaration

I hereby declare that this Dissertation is the product of my own original research undertaken under supervision and that no part of it has been presented for another degree in this university or elsewhere.

Candidate Name: Moses BuduOtchere

Signature:..... Date: 30th September 2016

Supervisor' Declaration

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

Supervisor's signature:..... Date:

Name: Dr. Clement Lamboi Arthur

ABSTRACT

This research assesses the effectiveness of the internal auditors by assessing the factors which determine the Ghana Water Company internal audit effectiveness. The research design selected for this study was exploratory-descriptive and Cross-sectional design. This design was selected because it is flexible and a lot of information could be gathered in the course of the research. The purpose of this study was to carry out an investigation the efficiency and effectiveness of audit unit of the Ghana Water Company.

The researcher used exploratory study design to describe the independent and dependent variable at the Ghana Water Company offices in Central Region. The researcher administered questionnaire to 25 purposively selected respondents' which included accountants, internal auditors, and other category of staff working in various branches of Ghana Water Company in Central Region. The findings showed audit committee existed in the organisation the overall rating on Improvement of control system, risk management and corporate governance was high meaning that they tend to agree that Improvement of control system, risk management and corporate governance was done based on internal auditors recommendations. We can conclude that both stakeholders and internal auditors themselves recognize the critical focus of management under internal audit is analyzed, which require the fundamental rethinking of the internal audit strategy. Therefore internal audit unit of the Ghana Water Company functions effectively and efficiently.

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DEDICATION

Dedicated to my wife, Mrs.EmeliaAmaOtchere, my children, Mavis, Jeffery,
Mercy and Vanessa BuduOtchere.

TABLE OF CONTENTS

Contents	Page
DECLARATION	ii
ABSTRACT	iii
ACKNOWLEDGEMENTS	iv
DEDICATION	v
LIST OF TABLES	xi
KEY WORDS	x
CHAPTER ONE: INTRODUCTION	
Background to the Study	1
Statement of the Problem	4
Objectives/Purpose of the Study	5
Research Questions	6
Significance of the Study	6
Scope of the Study	7
Limitation	7
Organization of the Study	7
CHAPTER TWO:LITERATURE REVIEW	
Introduction	9
The concept of Internal Audit	9
Type of Audit	10
Brief History of Internal Audit	11
Internal Audit Functions	12
Features of an Effective Internal Audit	17
Internal Control and Internal Auditing	19

The Scope of the Internal Audit	19
The Role of Internal Auditors	21
Concept of Efficiency and Internal Audit Efficiency	23
Internal Audit Effectiveness	24
Advantages of Internal Audit	25
Theoretical Framework	25
Empirical Reviews on Internal Audit Effectiveness	26
Improving the Effectiveness of Internal Auditing	33
Economic Implications of Ineffective Internal Audit	34
Challenges Facing Internal Auditors	35
Link between Organisation's Goals and Internal Audit	37
Summary	39
CHAPTER THREE: RESEARCH METHODS	
Introduction	40
Research Design	40
Population	41
Sample and Sample Size	41
Sampling Technique	41
Data Collection	41
Data Collection Procedure	42
Instrumentation	42
Data Analysis	43
Validation and Reliability	43
Ethical Consideration	45
CHAPTER FOUR: RESULTS AND DISCUSSION	

Introduction	46
Activities Carried out by Internal Auditors at GWCL	46
Efficiency of Internal Auditors and Ghana Water Company	48
Effectiveness of Internal Auditors at Ghana Water Company	50
Challenges facing Internal Auditors in their Efficient Delivery of Service	55
CHAPTER FIVE: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS	
Summary	57
Conclusions	58
Recommendations	59
REFERENCES	61
APPENDIX	69
A questionnaire for Internal Auditors	

LIST OF TABLES

Tables	Page
Internal Auditors Activities	43
Effectiveness of Internal Auditors at GWCL	45
Presence of Audit Dept. with Adequate and Competent Staff	48
Improvement of Control System, Risk Management and Corporate Governance	50

KEY WORDS

Compliance

Effectiveness

Effectiveness

External auditing

Independent

Internal auditing

CHAPTER ONE

INTRODUCTION

Background to the Study

The management of the public institutions is entrusted with public resources and saddled with the responsibility of managing these resources effectively and efficiently. It is expected that, the public servants entrusted with the management of public resources at public institutions will give account of how these resources are being managed under their care. In order to ensure proper utilization of these resources entrusted to the local government officials, laws are enacted to control the local government revenues and expenditures.

However, the process of accountability is not complete without auditing, which presently remains one of the most neglected and misunderstood area of the financial management cycle, especially in the public sector (Maru, 2002). Therefore, for an audit to be meaningful the audit unit must be seen to be truly independent and the report produced by internal auditor will assist in providing information for planning, decision making and performance evaluation as well as control of activities especially if such information has certain attributes such as relevance, completeness, timeliness, understanding and comparability.

In global view internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. Globally, it is reasoned that understanding the concept of internal audit is essential for developing an understanding of its impact on the performance of an organization. Internal audit of an entity is strictly

interrelated to the structure used by management to oversee the activities of the organization (Chartered Institute of Management and Accountancy, 2008).

Millichamp (2000) defined internal auditing as “An independent appraisal function within an organization for the view of system of control and the quality of performance as a service to the organization. The objective of auditing is to review and evaluate the activities of the organization with a view to express an opinion on the efficiency and effectiveness of management, as well as the adequacy of internal control within an organization.

According to Dandago and Suleiman (2005), both external and internal auditors are expected, based on their terms of engagement and the accounting and internal control system in place, to express professional opinion on the financial statement(s) vouched or examined and be guided by statutory regulations and professional requirement in discharging their duties. Therefore, an auditor should not be seen as a mere watchdog, he/she should learn to ‘bark and bite’, where necessary.

In every country that is administered in a democratic policy, there is the need to be accountable in the use of public resources and in providing effective, efficient and economical (3e’s) service delivery so as to prevent misappropriation and mismanagement of state resources. To achieve those government objectives, applying internal audit function were the major mechanism for controlling and using of all scarce resources available in the corporate organization. Ever more larger and complex systems require greater competitiveness, thus internal audit has had to become ever more professional (Van Gansberghe, 2003).

The government of Ghana has launched much initiative to ensure a major change from the old dispensation to one of a democracy, openness, transparency and accountability. As part of these initiatives, series of discussions has been held by the government, the Audit General Department, Controller Accountant General as well as other civil societies to ensure that the maladministration and negligence were highlighted and curbed. The Public Account Committee among others has been formed to check irregularities, non-compliance to regulations and general lack of accountability. Internal auditing is an integral part of the corporate governance mosaic in both the public and the private sectors (Cohen, 2002).

It is a fact that public sector has a significant role in improving the wellbeing of the communities in any nation. In Tanzania, local government authorities fall in the category of public sector institutions. These local governments are the ones whose management has a direct impact on people's lives in their respective localities (Chacha, 2006). In this way, improving the manner in which these local institutions are managed is likely to be significant not only on the way they deliver goods and services to the population but also provide a good image of the public sector institutions within and outside Ghana.

Given this importance of public sector institutions, in the current moment the government in Ghana has put much attention on developing and strengthening the audit department/function in the local government authorities. The logic behind this initiative is that in so doing there is a likelihood of improving the management of these institutions and hence being able to serve better the people in this era of decentralization. Therefore

this research is set to look at the current development in the management of the public sector, especially the initiative to strengthen the internal audit function in the public sector.

Statement of the Problem

Internal auditors have the right and ability to access all information in every part of the organization and their function lies in every activities of the corporate governance system. All the stakeholders will therefore benefit from having a strong Internal Audit Function which will provide value to the other cornerstones of corporate governance (Smet & Mention, 2011) because internal auditors can make line managers aware of their responsibility; can act as a consultant in monitoring risk, identifies weakness in internal control system, and facilitates the implementation of risk management as well as contributes to the appropriateness of procedures and operations of the audited body (Cohen and Sayag, 2010; Arena & Azzone, 2009; Dittenhofer, 2001).

Internal audit is an integral part for managing the finance of public organizations. A constant complaint in the sector is that internal audit department is too understaffed and generally under resourced to make it be fully effective. There is a claim that internal audit is challenged by the inadequate knowledge of Electronic Data Processing (EDP) and hence complicates the efficiency in auditing the computerized systems. The reliance on paper working has been the order of the day in the auditing function whereas working on papers does not make the auditing function seem to ruin its efficacy as a crucial management tool for effectiveness of the public sector institutions. Despite these challenges, still the auditing function stands at the centre in the management of institutions. Thus understanding how its

effectiveness can be maintained is likely to improve their sustainability and enable them realize their goals and objectives (Adeniyi2004).

However, the 2008-2009 global economic crises (Credit crunch) has undermined the very roles and purposes of the internal audit and above all, reduced the integrity of the internal audit units in promoting good corporate governance. Misappropriation of funds and corruption are now the order of the day in the public sector in all countries due to weak internal control systems (Van Gansberghe, 2005). Centre for Democracy and Development (CDD) of Ghana (2000), reported that government officials misappropriate public funds especially at the local government level and this has resulted to huge government budget deficit, low standard of living, and poor economic performance. The question that everybody will ask is, are the internal audit units effective in this present situation since they are the key element of the internal control systems of every organization? This has motivated the researcher to investigate into the effectiveness of the internal audit units audit as an instrument for improving the management of local government authorities.

Objective of the Study

General Objective

The general objective of this study is to investigate how effective and efficient Internal Auditors at Ghana Water Company is.

Specific Objective

Specifically, the researcher tried to achieve the following objectives;

1. To examine the effectiveness of the Internal Audit at Ghana Water Company.

2. To assess how efficient Internal Audit at Ghana Water Company is.
3. To examine the challenges facing the efficient delivery of services by the Internal Auditors of Ghana Water Company.

Research Questions

The research has proposed to answer the following research questions;

1. How effective are Internal Auditors at Ghana Water Company?
2. Are Internal Auditorat Ghana Water Company efficient?
3. What are the challenges facing the efficient delivery of services by the Internal Auditors of Ghana Water Company?

Significance of the Study

Through this study, internal auditors could unearth new approaches to effectively execute their functions as it will discover practical challenges hindering the effective service delivery of internal auditors and offer solution to it. Therefore, this research is very essential to show the effectiveness of the internal auditors by assessing the factors which determines the Ghana Water Company internal audit effectiveness. In addition, this research is important for the empirical evidences for the public sector offices and their implementation of work duties and procedures. Moreover, the study would assist the management of the institution to strengthen its internal control mechanism if there happens to be some weaknesses. Finally, the study will serve as a contribution of knowledge to help future researchers on the same topic. Researchers may fall on this study as a secondary source of literature on their research work. The research will also add up to the stock of knowledge that the future researchers will use in their literature review.

Scope of the Study

The study focuses on the influence of the internal audit functions on the successful conduct in all public sector offices but due to time, logistical and financial constraints it is out of the touch of the individual researcher, the study is limited to Ghana Water Company, Central Regional Office only. In addition the intent of this study is to investigate the selected determinants of the effectiveness of staff; such as management perception, management support, organizational independence, adequate competent internal audit staff, work done within a given time and presence of internal audit charter in the selected public sector offices.

Limitation

The researcher would have liked to conduct this research on all public institutions but for financial, logistics and time constraints so the research was limited to only Ghana Water, Company Cape Coast. Further, the research was limited by some respondents delay in responding to the questionnaire and given all data needed. The researcher had to go back to respondents to complete or seek further clarification on the data given.

Organisation of the Study

This research paper would consist of five chapters. The first chapter with its sub topics would be introductory parts incorporating the introduction, statement of the problem, research objectives, research questions, significant of conducting the study, scope and limitation of the study, and the methodologies used to conduct this study. The second chapter describes the detail review of related literatures with regard to the internal audit effectiveness and the variables which affect the internal audit effectiveness.

The third chapter expresses the information regarding the sampling techniques used to conduct the research. The fourth chapter is the analysis, discussions and presentation part of the research findings and finally, the last chapter describe about the conclusions and recommendations of the case study followed by the references and appendixes.

CHAPTER TWO

LITERATURE REVIEW

Introduction

This chapter focuses on the review of literature which has a direct bearing on internal audit. It covers key issues such as concept of internal audit, the functions of internal audit as developed by The Committee of Sponsoring Organizations of the Treadway Commission (COSO), theoretical framework and empirical studies. The chapter further discusses the history of internal audit, role of auditors and challenges of effective internal auditing as well.

The Concept of Internal Audit

Internal auditing is an independent appraisal function established within an organization to examine and evaluate its activities as a service to the organization. The objective of internal auditing is to help members of the organization in the effective discharge of their responsibilities. In view of this, internal audit furnishes them with analysis, appraisal, recommendations, counsel and information concerning the activities reviewed (Institute of Internal Auditors, 1991).

According to Institute of Internal Auditors (1991), the scope of internal auditor is defined as "The examination and evaluation of the adequacy and effectiveness of the organization's system of internal control and the quality of performance in carrying out assigned responsibilities". Johnson (1996) defined internal audit as an independent appraisal of activities as a service to all level of management. It is a control which measures, evaluate and reports upon the effectiveness of internal control which will be financial or otherwise as a contribution to the efficient use of resources within an organization.

According to Gupta (1999), internal audit is an independent appraisal function established within an organization to examine and evaluate its activities as a service to the organization. The Institute of Internal Auditors (IIA) as cited by Quaden (2001), defines internal auditing as "an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization to accomplish its objectives by bringing a systematic discipline approach to evaluate and improve the effectiveness of risk management, control and governance processes. Danbatta (2004) concludes that a properly conducted internal audit is expected to reveal errors, strengths or weaknesses of internal control system of the organization. Based on his conclusion, there is significant positive relationship between internal audit and internal control.

Types of Audit

Internal audit can be divided into the following categories, based on audit technique or objective (Aren, 1999; Dandago, 2002 and Sabari, 2003):

System Based Audit

This refers to an in depth evaluation of the internal control system with the objective to assess to extent to which the controls are functioning effectively.

Performance Audit or Operational Audit

This assesses whether the activity, programme or body has been managed economically and effectively. A particular performance audit will not necessarily seek to reach conclusions about all three aspects above; it should be clear from the audit objectives, which need to be examined.

Financial or Accounting Audit

This evaluates the accuracy of the accounting and related procedures and practices. It assesses the accuracy and completeness of the financial statements of the activity, programme or body being audited, and/or evaluates whether the transactions underlying the financial statements are legal and regular. However, according to the definition of internal auditing, internal auditors are mainly evaluating the system of internal control.

Compliance Audit

This evaluates how relevant policies, plans, procedures, laws, regulations and contracts, usually all audits include the compliance element, because the auditor uses the laws, policies and regulations as a yardstick to measure the performance of the organization.

Management Audit

It involves a review of each and every facet of management activity and its objective is to ascertain whether or not the resources of an organization are used by its management in the most economic way to produce the maximum possible result in the shortest possible time in accordance with its goals.

Brief history of Internal Audit

The proliferation of large, dispersed, complex corporations, starting in the twentieth century, spurred the accelerated development of the internal audit function. The Institute of Internal Auditors (IIA) was established in 1941, largely in response to this development and modern internal auditing owes much of its early progress to the Institute of Internal Auditors. This

includes the gradual expansion of the scope of internal audit activities and the professionalization of the internal audit practice.

It was not until 1947 that Institute of Internal Auditors (IIA) issued its first Statement of Responsibilities. The Code of Ethics was issued in 1968 and Standards in 1979. The first Certified Internal Auditor (CIA) exams were written in 1974, indicating that there was, that time, deemed to be recognised body of knowledge available for internal audit professionals. According to Pickett (2004), internal audit has come a long way over the last two or three decades. In the past, internal auditing was seen as a mechanism to double-check the thousands of financial transactions that were posted to the account each week. In the 1950s and 1960s, it only consisted of basic test of the accounts with a view to isolating errors and irregularities.

In contrast, today's internal auditors facilitate the development of suitable controls as part of a wider risk strategy and provide assurances on the reliability of these controls. The move from detailed low-level checks of huge volume of mainly transactions to high-level put into corporate risk management has been tremendous (Rudasingwa, 2006). Risk management in an organization is important because organization operates in an environment with full of uncertainties. Therefore, the internal audit in today's global world should shift way from traditional checking of volume of transactions to risk management and control. That is, it should focus on preventing errors and fraud rather than errors and fraud detection.

Internal Audit function

Internal audit makes a large contribution to the achievement of company goals, and the implementation of strategies for their achievement

(Ljubisavljević&Jovanovi, 2011). In addition, the internal audit function is responsible for reinforcing management and audit committee (Hutchinson &Zain, 2009).Likewise, internal audit determines the reliability, reality, and integrity of financial and operational information that comes from different organizational units, on which appropriate business decisions at all levels of management are based. Successful implementation of internal audit tasks means that it must be independent, i.e., company management should in no way influenced by its work, information, conclusions, and evaluations. In this way the internal audit report becomes a meansof communication between internal audit and management, and an important guideline for the successfulmanagement of the company (Ljubisavljević&Jovanovi, 2011).

Furthermore, the internal audit function facilitates the operation and effective working of the audit committee as the audit function goals are consistent with the former's financial reporting oversight responsibilities (Goodwin and Yeo, 2001; Goodwin, 2003; Scarbrough, Rama &Raghunandan, 1998). The creation of an internal audit function is supported by the governance reports (NYSE, 2002) and previous studies (Collier &Gregory 1996; Goodwin & Kent, 2003) as a mechanism to enhance internal governance processes.

Along this line of argument, Al-Shammari (2010) mentioned many factors of internal audit functions and they are provided below:

1. The internal control systems and arithmetic evaluations in an attempt to; ensure that the accounting system and internal controls systems are appropriate, ensure that the systems are suitable for the facility and propose system enhancements.

2. Assessing plans and procedures to determine weaknesses or defects in the systems and procedures used by the company and to propose modifications and enhancements needed, and to provide authority to the internal auditor for the examination of the aspects of establishment activity.
3. Taking into consideration the staff commitment to the company policies and procedures and therefore, internal auditor has to monitor these policies and procedures' implementation and to clarify them to the employees.
4. Safeguarding established funds as the development and implementation of systems is an attempt to make sure that the facility safeguards assets and funds against manipulation and fraud, to detect fraud and minimize losses stemming from neglect/abuse (e.g. loss of proper storage).

Generally, previous study dedicated to examining the relationship between internal audit and firm performance is so limited in both developed countries and developing countries. Several studies have called for further studies to conduct extensive investigations; for instance, Hutchinson and Zain (2009), explored the association between internal (audit experience and accounting qualification) audit and firm performance (ROA) with growth opportunities and audit committee independence in the context of Malaysia. Their study has two future recommendations. First, future studies should examine the role of the board and the interaction between internal audit quality and audit committee independence. Secondly, Shewawmeni (2014) encourages future studies to look into alternate models of factors that would

possibly impact internal audit quality (IAQ) and improve corporate governance.

There are some studies that have concentrated on problems concerning internal auditing in developed countries including the U.S. and the U.K. but little evidence is found in emerging markets. Hutchinson and Zain's (2009) study involved the examination of the relationship between internal (audit experience and accounting qualification) audit and firm performance (ROA) with growth opportunities and audit committee independence in Malaysia. They recommended future research to consider different factor models that may impact quality of internal audit and improve corporate governance. From this recommendation, the current study focuses on investigating the association between internal audit function and performance of firm both accounting measurement and market measurement while taking some new variables such as qualification of the chairman of internal audit, the internal audit size, experience of internal audit and internal audit qualification and consider moderators such as audit quality between internal audit and firm performance.

More importantly, there is a lack of research in both developed and emerging nations concerning the direct relationship between internal audits functions with performance of firm. In addition to that, Al-Matari et al. (2012) investigated the relationship between board characteristics and firm performance in Kuwait. They recommended that future researchers examine the association between internal audit and firm performance whether directly or through a moderator. Moreover, the qualification of chairman of the internal audit is a new variable added by the present study.

In a related study, Davidson, Goodwin-Stewart and Kent (2005) investigated the relationship between internal governance structure comprising of board of directors, audit committee, internal audit function and the selection of external auditors, and earnings management in Australia. They used broad cross-sectional regression to test the association between independent variables and dependent variables. The sample comprised of 434 firms which were listed on the Australian stock exchange during 2000. The outcome disclosed no significant relation between the internal audit function and the choice of external auditors. In the same context, Ljubisavljević and Jovanovi (2011) studied the relationship between the roles of internal audit in Serbian firms. The sample comprised of 200 small and medium firms during 2011. This study used questionnaire survey and found that the effectiveness of the internal audit entity is weak.

Consistent with the above is Hutchinson and Zain (2009) who aimed to explore the relationship between internal audit quality (audit experience and accounting qualification) and firm performance (ROA) in Malaysia. The data were collected by a mail questionnaire among public listed companies in Malaysia during the period 2003. The results showed a strong relationship between internal audit quality and firm performance with opportunities of high growth and that this positive link is decreased by the increasing independence of audit committee. This study preferred an independent audit committee.

Features of an Effective Internal Audit

Laker (2006) identified the following as the essential features of internal audit.

Structure and Resources

The structure of the internal audit function is established and an assessment made about the key audit personnel, their roles, responsibilities, skills and experience. Where the function is outsourced focus includes the terms of the outsourced arrangement and how this is monitored.

Independence

The board of the institution should ensure that the independence of the internal audit function is maintained. The internal audit can enjoy the level of independence with that of any department. This independence may be compromised if the function is directly involved in risk management or operational processes. The internal audit function may provide valuable input to those responsible for risk management but the unit should not have direct risk management responsibilities.

Approach

The approach taken by internal audit should be clear and may be one or a combination of; risk based and review based. The focus is on the high risk areas of the institution and on the review of various parts of the institution, usually chosen both at random or in line with the internal audit plan as well as policies and procedures. The board should have endorsed the approach and there should be sufficient scope to changes where arise enquiring internal audit involvement.

Internal Audit Plan

The internal audit plan, which usually details the proposed internal audit work for the next twelve months should be documented and endorsed by the board. Importantly, the plan should be consistent with the type of approach to be taken and should be adequate for the scale and complexity of the institution's operations. The internal audit unit shall draw up a long term plan and a proposal for next year, based on risk analysis and taking in account the needs expressed by the administrative units. The proposal for the next year shall be submitted for approval to the board, and the proposed annual plan shall specify the required number of staff.

Reporting

Each assignment shall be followed by a report containing findings, recommendations or remarks, sent to the departments and administrative units responsible, and a summary to the responsible director. The internal audit an assessment of the internal of the facts control system. If necessary, it shall contain recommendations for improving internal control or remarks that indicate which actions or data are not in accordance with the rules. The reports shall be based on adequate working papers.

Other prior studies including Woolf (1992), Philip (1996), Millicham, (2000) and Dandago(2002) have similar views that, effective audit features includes; ascertaining the accounting and internal control system, evaluate the control to determine that they are satisfactory in principles to determine whether they had be applied as prescribed throughout the period, test transactions and balances for completeness, accuracy and validity of transactions, review financial statements by conducting analytical principles or

review procedures and determination of audits opinion that would be expressed.

Internal Control and Internal Auditing

These two terms are often misunderstood to mean one thing. However, they are different in scope and objectives. Internal control is a broader concept which includes internal audit. The objectives of internal auditing are to assist the organization, in particular managers and members of the board of directors, to discharge of their responsibilities effectively. Internal audit furnishes them with analysis, appraises, recommendation, advice and information concerning the activities reviewed. IIA (2006) explained that internal audit can be regarded as the means by which management learns if its internal control systems are appropriately designed and in fact working. The cornerstone of internal control is the internal auditing. It is the responsibility of internal auditors to ensure that the top management and employees comply with the internal control systems and any weakness of the system should be identified and corrected. Therefore, internal audit is essential tool for ensuring the operations and appropriateness of internal controls.

The Scope of the Internal Audit

Auditing scholars and literatures have suggested the non-restrictive view on the scope of the internal auditing. For instance, Effiok (2003) asserts that there is no rule of thumb as to what should constitute the exact extent of the area of coverage regarding the work of the internal auditor. His or her work can cover matters which are not directly of accounting and financial nature. This suggests that the scope of the internal auditing can cover the entire organization. It does not matter whether it is financial or otherwise.

Conversely, Salaudeen (2005) sees the scope of the internal auditing to vary from one organization to the other depending on the size, structure and management of the organization. This view recognizes the peculiarity of organizations. Hence, there is difficulty in determining the actual borders for the operation of the internal audit in all organization. However there are others that consider a restrictive view by limiting the scope of the internal auditing to just reviewing the system of internal control. Jenfa (2004) and Okwoli (2004) as cited in Aliyu (2006) contend that the present requirement of the internal audit is not the detection and prevention of errors and frauds, but reviewing the system of internal control.

Equally holding this view, Sharma (2004) and Obazee (2006) as cited in Salaudeen (2006) opine that internal auditing is a significant aspect of controls in both private and public sector organizations and it is generally accepted as an integral part of management control exercised within an organization. Similarly, Effiok (2003), even though a different view, contends that it can be asserted with a degree of certainty that monitoring internal control forms the bulk of the work of internal auditor in any organization.

Thus, there is a near consensus that evaluation of the internal control system is what the scope of internal auditing seeks to cover. Interestingly, Dandago and Suleiman (2005) describe the scope of the internal audit in a very fascinating manner by analyzing the role being played by an internal auditor through an analogy with a live dog. They observe that the internal auditor barks by issuing audit query or raising audit alarm and then bites by writing a report to the management detailing the infringement committed and

their implications to the specific and general financial wellbeing of the organization for appropriate disciplinary or corrective actions to be taken.

The Role of Internal Auditors

Van (2004) identified the criteria for an effective internal audit such as evaluation of risk, confirmed information, analyze operation, review compliance, recommend controls and assure safeguards.

Evaluating Risks

Van (2004) asserted that organization cannot shrink its way to greatness it must grow and one of the keys to successful growth is effective risk management. IIA's international standards for the professional practice of internal auditing define risk assessment as a systematic process for assessing and integrating professional judgments about probable adverse conditions or events. Risk impacts an organization's ability to compete and to maintain its financial strength and the quality of its products and services. It's the internal auditor's job to identify all auditable activities and relevant risk factors and to assess their significance. Internal auditors are in the unique position to protect their organizations from potential disasters at present time and in the future.

Confirming Information

It is the responsibility of the internal auditors to keep their organizations informed of all discoveries and research observations made during the audit process. They must be careful to keep the line of communication open with those in the organization who are directly involved in the audit. By modelling communication and making suggestions, the internal auditor operates as a team player, constantly adding value to the

organization. This means today's internal audit professional coach can vastly impact the effectiveness and efficiency of operations and help set the tone for ethical practices and behaviour throughout the organization (ISA, 2010).

Analyzing Operations

The internal auditors must be well versed in the objectives of their organization and have the ability to examine and analyze to make sure operations are effective. They may also have to establish criteria, based on their objective opinion for meeting their organization's goals. Through a strong commitment to the organization's values and goals, their understanding of the big picture plays a crucial role in the overall success of the organization (ISA, 2010).

Reviewing Compliance

Management's role is to implement policies and maintain extensive knowledge of the compliance requirements of all applicable laws, regulations and contracts. Internal auditors are responsible for reviewing objectives, providing insight into the impact that no compliance would have on an organization and informing senior management of indications of significant noncompliance. It is the internal auditors who help senior management sleep well at night (ISA, 2010).

Recommending Controls

Internal control is at the very center of the internal auditor's world. It is also integral to effective organizational governance and thereby is critical to management and the board. Internal auditing role in internal control is

essential. Working in partnership with management the internal audit activity can be invaluable to every aspect of the organization (ISA, 2010).

Assuring Safeguards

Internal audit have to evaluate all procedure used to safeguard all asset from different type of losses. If the assets of the organization are not protected appropriately, and then internal auditors must make recommendations to ensure that they are protected. It is not tangible asset only but employees and information are also important assets to be safeguarded (ISA, 2010).

Concept of Efficiency and Internal Audit Efficiency

A general description of efficiency is the degree (including quality) to which established objectives are achieved. The same description can be used for internal audit effectiveness and efficiency that internal auditing should establish performance metrics and related measurement criterion appropriate to its environment of organisation to measure degree (including quality) of achievement of objectives for which the internal activity is established (The Institute of Internal Auditors, 2010). Internal auditors provide assurance to the company's management that, systems operate effectively; internal controls are effective, laid down procedures are followed, financial and other information being produced are sound and reliable.

However, if the internal audit department is to be effective in providing assurance, it needs to be sufficiently resourced in terms of budgets and people, well organised so that it has well developed work practices, competent staff who receive high quality training, Independent and objective (ACCA 2008). According to White (1976), the efficiency of internal auditing is determined

by the fit between the audit and some set of universal standards extrapolated from the characteristics of IA. These universal standards are interdependence, professional proficiency, the scope of work, the performance of the audit and management of the internal audit department (Sawyer 1988). Besides, the efficiency of internal auditing is not a computable reality, but rather it is determined by the subjective evaluations assigned to the function by management. In other words, the success of any internal audit can only be measured against the expectations of the relevant stakeholders (Albrecht et al., 1988).

Internal Audit Effectiveness

Different authors defined the term “effectiveness” as follows; For instance, Arena and Azzone (2009) defined effectiveness as “the capacity to obtain results that are consistent with targets”, Mihret and Yismaw, (2007) internal audit effectiveness is defined as “the extent to which an internal audit office meets its supposed objective or the extent to which it meets the intended outcome”, and Dittenhofer (2001) “Effectiveness is the achievement of internal auditing goals and objectives using the factor measures provided for determining such factors”. All the three authors defined effectiveness in terms of achieving the internal audit goals and objectives, though interpreted in different ways.

Mihret and Yismaw (2007) described the characteristics of effective internal audit unit from the internal audit point of view. Effective Internal Audit undertakes an independent evaluation of financial and operating systems and procedures, contributes to the achievement of organizational goals, needs management’s commitment to implement recommendations, provides useful

recommendations for improvements as necessary, affected negatively by lack of attention from management which in turn adversely affects the auditee attributes, and management support is a natural quid pro quo for effective internal audit.

Advantages of Internal Audit

Tijjan (2003) as cited in Dambatta (2004) observes that internal audit unit to any organization be it private or public, outweigh the cost of its maintenance. He summarizes the advantages as improving efficiency in the local government operations; the existence of internal audit creates control, which acts as a deterrent to inefficiency, waste and fraud. The internal audit department serves as a “pool” from which high caliber staffs can be seconded to other units within the organization to fill management posts. An internal audit also makes the works of external auditor easier.

Theoretical Framework

Agency Theory Agency theory is concerned with resolving problems that can exist in agency relationships; that is, between principals (such as shareholders) and agents of the principals (for example, company executives). The two problems that agency theory addresses are: the problems that arise when the desires or goals of the principal and agent are in conflict, and the principal is unable to verify what the agent is actually doing and the problems that arise when the principal and agent have different attitudes towards risk. Because of different risk tolerances, the principal and agent may each be inclined to take different actions. Adams (1994) in his article stated that Agency theory can provide for richer and more meaningful research in the

internal audit discipline. Agency theory contends that internal auditing, in common with other intervention mechanisms like financial reporting and external audit, helps to maintain costefficient contracting between owners and managers. Agency theory may not only help to explain the existence of internal audit in organizations but can also help explain some of the characteristics of the internal audit department, for example, its size, and the scope of its activities, such as financial versus operational auditing. Agency theory can be employed to test empirically whether cross-sectional variations between internal auditing practices reflect the different contracting relationships emanating from differences in organizational form

Empirical Reviews on Internal audit effectiveness

As the main aim of this research is to assess the effectiveness of internal audit, different authors and researcher's idea and recommendations regarding the related topic of internal audit are analyzed and presented. Although the prologue of internal audit in Ethiopia are dated in the 1940s the time also the united states and most European countries are adapted; the effectiveness of internal audit in the banking industry in particular are challenged because of the factors that hinder the development of internal audit in Ethiopia.

For the ease of presenting the literature those studies regarding the main factors that influence the effectiveness of internal audit; such as management support, the perceptions of the management, organizational independence of internal auditors, Organizational independence of internal audit team, adequate competent of internal audit staff, and the presence of approved internal audit charter reviewed by different researchers are included

in this literature as they are proofed the key determinant factors their respective case studies.

Management Support

Organization's management has a close relationship with internal auditors in their day to day activities. They need good support and perception from their management to be more effective and to achieve the audit objectives. Management support is expressed in terms of supporting the auditing process by fulfilling the necessary resources, finance, transport if required, providing training, introducing auditors with new technology and procedures, budgeting funds for certification another facilities that facilitate the internal auditing works.

Management support has a far-reaching consequence on IA effectiveness in organizations. For example, Mihret and Yismaw (2007) in their case study of IA effectiveness on public sector shows that the component of management support consists of the response to audit finding and the commitment to strength internal audit which has significance influence on IA effectiveness. Given the fact that internal audit activities are performed in dynamic management process and more supportive environment, internal auditor expects senior management to take the first steps to support the IA process. Internal audit actively seeks management support with resources, commitment to promote and communicate their added value.

The management support is almost crucial to the operation and internal audit; because all other determinants of IA effectiveness derive from the support of top management, given that hiring proficient IA staff, developing career channels for IA staff, and providing organizational independence for IA

work are the results of decisions made by top management (Cohen and Sayag, 2010). This means it is the interest of management to maintain a strong internal audit department (Mihret&Yismaw, 2007; Adams, 1994). In addition, implementation of audit recommendations is highly relevant to IA effectiveness which is the component of management support (Mihret and Yismaw, 2007).

The management of an organization is viewed as the customer receiving IA services. As a result, management's commitment to use audit recommendations and its support in strengthening internal audit is vital to IA effectiveness. Therefore, audit finding and recommendations would not serve much purposely unless management is committed to implement them. Furthermore, Belay (2007) find that to curb corruption and inefficiency in the public sector of Ethiopia, it is mandatory to have effective internal audit function(IAF) that in turn needs appropriate governance structure, mobilizing sufficient and appropriate resource and competent personnel.

Management's Perception of IA's Value

Perception is the process of attaining awareness or understanding of sensory information or it is the mental image or intuitive recognition of experience when aware of the elements of the environment (Woodard C.A, 2002). To function effectively, internal auditors and the customers of audit services should possess a similar understanding of what makes internal auditing a value added activity. The failure to reach this understanding could result in the perception that internal audit is simply an obstacle to achieving production objectives. This can result in underutilized audit services and ignored audit recommendations which adversely influence the effectiveness of

IA (Arena and Azzone, 2009). When employees at all levels perceive that the top management assigns importance to the function of IA, they will cooperate and support these processes (Cohen and Sayag, 2010). This implies that internal audit staffs are more motivated and encouraged to perform audit activities given good management's awareness of IA values.

Organizational Independence

Independence has no single meaning and interpretation across the people; hence the concept is subject to ambiguity and uncertainty (Wines, 2012). However, for the purpose of the case study independent refers to the concept of being free from any management influence while internal auditors perform audit activities and issue audit report (Belay, 2007; MoFED, 2004). Independence is fundamental to the reliability of auditor's reports. Those reports would not be credible, and investors and creditors would have little confidence in them, if auditors were not independent both in fact and appearance.

The assurance services provided by auditors derive their value and credibility from the fundamental assumptions of independence of mind and independence in appearance (Wines, 2012; Stewart and Subramanian, 2010). While the internal audit typically focuses on the whole management process, to maintain objectivity, to increase the reliability of information, to be free from unacceptable risk of material bias, and to issue reasonable and credible audit opinion, it is required to be independent (IIA,2001). Independence in fact exists when auditors are actually able to act with objectivity, integrity, impartiality and free from any conflict of interest. While the concept of independence in appearance is the auditor should be perceived by others (the

public or other third party) to be independent. In this case, conflict of interest will also exist when a reasonable person, with full knowledge of all relevant facts and circumstances, would conclude that the auditor is not capable of exercising objective and impartial judgment in relation to the conduct of the audit of the audited body.

Auditors should be sufficiently independent from those they are required to audit in order to conduct their work without interference. Coupled with objectivity, organizational independence contributes to the accuracy of the auditor's work and gives employers confidence that they can rely on the results and the reports (Cohen & Sayag, 2010). As Stewart and Subramanian (2010) review under organizational status the IAF should be given the appropriate status in the organization to enable the function to exercise organizational independence and individual internal auditors to act objectively since internal auditors found in a unique position as employees of an organization with responsibility to assess and monitor decisions made by management and also to the management. Furthermore, many auditors have been argued that in order to achieve audit objectives and become effective organizational independence is very important.

For instance, the independence of internal audit department and the level of authority to which the internal audit staff report are the important criteria influencing the objectivity of its work, and added that organizational independence is more crucial to the effectiveness of the internal auditors, as it protects the auditor from pressure or intimidation, and increases the objectivity of the auditing work (Cohen and Sayag, 2010).

Adequate and Competent Internal Audit Staff

Adequate staffing is essential for a system to its full capability. Weakness in staffing can lead to mismanagement, error and abuse, which can negate the effect of other controls (MoFED, 2004). The size of IA staff and the competency of internal audit are the critical characteristics of IA quality that can't be separated. This means at the absence of one dimension the other cannot contribute to the quality of internal auditors. Auditors must comply with minimum continuing education requirements and professional standards published by their relevant professional organizations (IIA, 2001).

The IIA's standard 1210, on proficiency of the auditor require that the internal auditors should possess the knowledge, skill and other competencies need to perform their responsibilities (IIA, 2001). As part of this, Competency Framework for Internal Auditing (CFIA) focuses on the skills needed by an individual person to be an efficient internal auditor. The literature review specifically conducted on the communication skills (Smith, 2005) stated that the development of effective communication skills (such as listening, interpersonal, written and oral communication skills) is an important part of internal auditor's advancement potential. Internal auditors must possess highly developed communication level skills to become a successful professional.

The development of these skills is not onlyto enhances the auditor's potential, but will also improve the quality of audits produced. In addition to the above dimension of IA quality, the competence of internal auditors can be measured in terms of academic level, experience and the efforts of staff for continuous professional development and compliance with audit standards. Both the quantity of audit effort and the quality of professional care exercised

will determine the overall quality of the internal audit work (Cohen and Sayag, 2010; Belay 2007). Arena and Azzone, (2009) also stated that IA effectiveness increase in particular when the ratio between the number of skilled internal auditors and employees grows. This shows that sufficiently large number of skilled professionals enables the IA to do its duties.

Approved Internal Audit Charter

Internal audit charter is defined by the IIA as “a formal written document that defines the activity’s purpose, authority and responsibility. The charter should be (a) establish the internal audit activity’s position within the organization; (b) authorize access to records, personnel and physical properties relevant to the performance of managements; and (c) defined the scope of internal audit activities” (IIA, 2001). Additionally, an internal audit charter typically includes the responsibilities of the IA in broad terms, the standards followed by the IA; and the relationship between the IA and the audit committee. It may also defines access to the information (documents, records, systems, and personnel) necessary to perform and reach conclusions on the work, and it is a vehicle for asserting that there are no unreasonable limitations on the scope of the auditor work. The charter should clearly identify and record any limitations and alter to actual or potential changes on internal and external conditions that affect its ability to provide internal control assurance from a forward looking perspective.

From the empirical literature studied it can be noted that effectiveness of internal audit function is determined by the Management Support, Management’s Perception of IA’s Value, Organizational Independence of internal audit staffs, adequate and competent Internal Audit Staffs, and

presence of approve internal audit charter. Internal audit function plays a key role in corporate governance. Therefore, this study also aims to establish the relationship between effectiveness of internal audit function (IAF) and the independent variables that affect the internal audit task accomplishments of the case organization; the Construction and Business Bank. The Conceptual framework showing the interdependence between the variables is depicted below as follows:

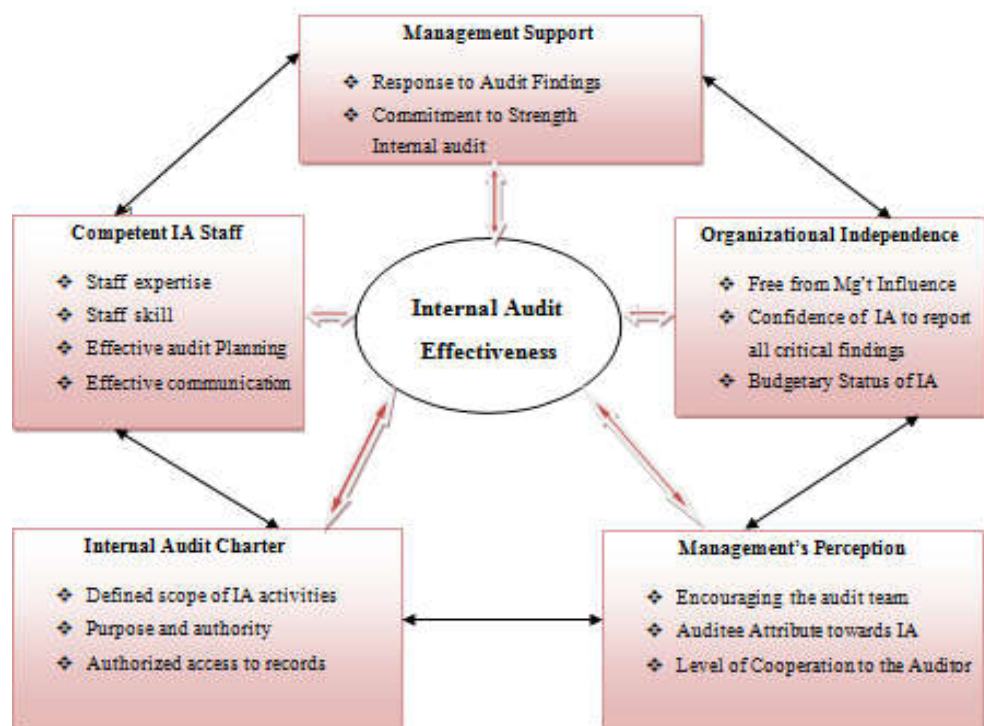


Figure 1: Frame work of Factors influencing internal audit effectiveness

Source: Adopted from Mihret and Yismaw (2007)

Improving the Effectiveness of Internal Auditing

According to Richard (2009), internal auditing, when effectively implemented, can arguably be considered the most important tool in the quality system tool box. It's the primary method for continuously monitoring a

company's quality management system. In fact, the feedback from internal auditing is critical to the growth of the quality management system. Through an audit, an organization can identify a system's ineffectiveness, take corrective action, and ultimately support continuous improvement.

Unfortunately, a poorly deployed internal auditing system can lead to increased, no value-added costs, many hours of wasted resources, and an eventual, inevitable quality management system breakdown. Consequently, companies that understand and support their internal audit systems sharpen their quality management edge. Their internal auditors have acquired the skill to identify a system's effectiveness as well as ensure compliance. These companies have progressed and understand the subtlety of continuous improvement.

When effectively managed, internal auditing becomes an important element in helping an organization achieve its objectives. Organizations with internal audit activities are better able to identify business risks and system inefficiencies, take appropriate corrective action, and ultimately support continuous improvement. However, to maintain and enhance internal audit's credibility, its effectiveness and efficiency must be monitored. Thus internal audit by acting as a watchdog could save the organization from malpractices and irregularities thus enabling the organization to achieve its objectives of ensuring high level of productivity and profit.

Economic Implications of Ineffective Internal Auditing

The dramatic collapse of the global stock markets and subsequent economic crises with its impacts, which accompanied it, resulted in a sharp concentration in both public and private sector established.

For an economic development of any public sector to be put correctly as well as guard the pattern its revenue and expenditure, a proper record of the expenditure items must be kept. The effectiveness of auditing System can be reinforced. Economically, internal auditing is meant for internal consumption with varying socio-economic benefits. In Public Sector according to Azubike (2002), internal control is highly effective in increasing the reliability of accounting data and in protecting against fraud. The economic implications of an ineffective auditing system in a public sector management are the negative aspects of the positive development of the auditing system such as;

1. Inability to plan effectively due to the availability of unconfirmed financial operations of the enterprise in past years, Inability to make effective financial decision,
2. Lack of credibility of enterprise before external entities-government financial house, creditors etc,
3. Inadequacy of information about the enterprise's assets, Inability of the enterprise to rely on any proper statement on past, current and proposed future balance sheet on revenue, revenue sources, expenditure items, profits and losses,
4. Difficulties in controlling the financial operations of the enterprise, There is the possibility of the emergence of fraud and
5. Inability to detect easily the compliance of enterprise financial accounts with the requirement of law.

Challenges facing internal auditors

Azzone (2009) elaborated some kinds of challenges that internal auditors face in their line of duty. This was a finding of his research among head of audit departments in New Delhi, India.

Lack of Audit Manual

The absence of standard internal audit manual and detailed audit work plan will affect the quality of audit work particularly for internal auditors who are either non-accountants or nonqualified accountants.

On-Career Auditors and Lack of Growth Prospect

Most internal auditors who are professionally qualified accountants have been prevented from ascending to levels or status that is equivalent to those held by their professional colleagues in the finance/accounts department. This gives such colleagues in the accounts department an advantage and a feeling of superiority to the internal auditor hence they stifle with imparity the process of information flow to the auditor and makes available only thing they want the auditor to see.

Reporting Structure and Professional Independence

The internal auditor used to be a unit of the accounts department in the past but to ensure a level of independence, they were made to report directly to the Chief Executive. The change however negatively impacted on Public Sectors as most Chief Executives are political officeholders, having no permanent interests and leading to non-commitment to internal audit reports.

Scope of Work

The absence of a proper definition of the duties, rights, privileges and limitations of the internal auditors also inhibits the satisfactory performance of their duties.

Privileges of Office

The lack of adequate remuneration and pre-requisites of office has made some internal auditors to compromise their positions in favour of fraudsters.

Hazards of Office

Another factor, which impairs internal audit efficiency, is the hazards that stare the honest and principled internal auditor in the face there are reported cases of assassinations, burglary, native medicine and acid attacks on the lives and properties of internal auditors.

Link between Organization's Goals and Internal Audit

Dittenhofer (2001) prescribed that an internal audit is to assist firms in achieving objectives. Further, Institute of Internal Auditors stated about internal audit that it, "helps an organization accomplish its objectives" (IIA, 2004). In the same way other literature has documented the internal audits role in the achievement of firm goals (see some examples as; Hass et al., 2006; Roth, 2003; Yee et al., 2008; Gramling et al., 2004).

3.8.1 Firm Performance and Internal Audit Effectiveness

The link between firm performance and internal audit could be an alternative method to evaluate internal audit effectiveness. Hermanson and Rittenberg (2003) were selected for a research

to know the link between an organization performance and internal audit effectiveness.

Further, Marx's (1978) theory explained the suitable link between internal audit effectiveness and firm's performance. The Institute of Internal Auditors (IIA, 1999(f)) presented a broad definition of internal auditing effectiveness and company goals: ". . . 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." An internal audit is effective if it meets a goal which it is supposed to bring about. Sawyer (1995) states, ". . . internal auditor's job is not done until defects are corrected and remain corrected."

Further Van Gansberghe (2005) explained that internal audit effectiveness; should be assessed to the degree of efficient and effective delivery of internal audit services, which improves demand for it. He also explained organization and government framework; conceptual framework; legislation, perception and ownership, improved professionalism and other factors related to internal audit effectiveness. An effective internal audit provides an independent analysis of systems and procedures and financial operating data for valuable recommendations in company. 17 Further, Bryer (1999a, b, 2006), Yee et al., (2008), Marx's (1978) theory explicate investors persuasion on "surplus value" of assets and the function of designed control mechanisms to provide assurance and to achieve that objectives.

This theory also explained internal audit's function in firms and clarified the concept that internal audit is a value adding, forward looking service and not a compliance control mechanism. A sign of internal audit effectiveness is the growth rate of Return on Capital Earning (ROCE). Internal audits help in improving Return on Capital Earning (ROCE) quality, as reported by Gramling et al., (2004) Cohen et al., (2002, 2004) and through risk management, operational auditing improving its rates (Spira and Page, 2003), and by detecting fraud secure assets (Reghunandan and Mchugh, 1994; Coram et al., 2008; Yee et al., 2008). 3.8.2 Economy Growth and Internal Audit Services The internal audit can help and improve the economy through consultancy services and through effective utilization of capital (Al-Twaijry et al., 2003; Yee et al., 2008). An internal audit can also play value adding role in government sectors. Furthermore, an internal audit also has the report authority to the board of directors about their management to enhance the management efficiency (Gramling et al., 2004; Yee et al., 2008).

Summary

Despite increasing attention to the IA's role within corporate governance, only limited researchers have examined the determinants of effectiveness of its function. A number of these studies were IA related and organizational characteristics to the effectiveness of its function. For example, similar understanding of IA as value adding activity by management and its customer will increase the possibility of regular utilization of IA services and recommendations, that in turn related with IA effectiveness (Flesher and Zanzig, 2000; Arena and Azzone, 2009). In assessing the organizational delivers of IA effectiveness added that the size of internal

auditors team and the involvement of audit committee in internal auditors activities are positively related with internal audit effectiveness (Arena and Azzone, 2009).

The advantage of having IA function within the organization was increasing the likelihood of detecting and self-reporting fraud than outsourcing functions. Nevertheless, the possibility of realizing these advantages is determined by different organizational characteristics (Coram et al, 2008). As Cohen and Sayag (2010) found top management support was strongly and consistently related to the three internal audit dimensions such as auditing quality, auditee evaluations and the added contributions. In addition, they stated that the greater the organizational independence increases positive internal auditee evaluation. Furthermore, the size of internal auditors staff, skills and experience of internal auditors, continues professional development and academic level are the best indicators of internal audit quality (Arena and Azzone, 2009; Cohen and Sayag, 2010; Al-Twajry et al., 2004).

CHAPTER THREE

RESEARCH METHODS

Introduction

This chapter deals with the description of the research methodology the researcher adopted. An Exploratory-Descriptive design was used, and also highlighted on the settings of the study, variables used, population and sampling techniques used. It also threw more light on the ethical considerations, data collection instruments and procedures used, validity and reliability and data analysis.

Research Design

Zita and Ozougwu (2010) are of the opinion that, the design of research is what the objectives seeks to achieve and also the accurate needs of data. They proceeded to explain further that, the design of research is the foundation of the mechanisms that can aid in collecting and evaluating the necessary data. The study employed quantitative approach with a descriptive design applied to this study. It is the process by which data is turned into numbers. It gives precision or accuracy to the responses received in the study. These data were summarized in percentages, averages or statistics. Burns and Grove (1997) explained that descriptive study designs aims to gain more information about one or more characteristics within a particular field of study. The study seeks to examine the effectiveness of internal audit in Ghana Water Company. Yin (1994) opines that, for a case study to be accurately utilized situations in real life are looked into. This design was selected because it is flexible and a lot of information could be gathered in the course of the research.

Population

Population is the sum total of a collection of sample that are required to provide information. (Tustin, 2005). The population considered in this study is twenty five (25) auditors and management of the company within the Cape Coast Municipality. The population constitutes the staff, comprising of the branch managers, auditors, and audit department staff.

Sample and Sample size

A sample is the “subset of cases drawn from the target or accessible research population” (Burns & Grove, 2001). The sample size of the study comprised of five (5) Regional Internal Audit Staff of Ghana Water Company and five (5) metropolitan account staff, and other staff from commercial, water quality human resource and distribution units of Ghana Water Company, Cape Coast.

Sampling Technique

The researcher employed probability (random) sampling in this study. In the random sampling according to (Laerd, 2012), each member in the population is given an equal chance of been selected into the sample size. The researcher drew the sample from staff of audit department of Ghana Water Company as well as managers from branches within the Cape Coast Metropolis.

Data Collection

Data collection is “the precise systematic gathering of information relevant to the research purpose” (Burns & Grove 2001). Data was collected using structured questionnaire which was distributed to the respondents.

Data Collection Procedure

Before the actual collection of data the researcher met with the regional and municipal heads of the Ghana Water Company, Cape Coast to seek permission for the research. The researcher explained the nature of the study to the authority of the company. Formal permission was taken from the University of Cape Coast, stating the purpose of my research. The researcher administered the questionnaire to the sample subjects. The questionnaire was administered to the staff during working hours and collected the same day to ensure 100% returns.

Instrumentation

Questionnaire was used to collect data for the study. Questionnaires refer to a series of questions asked to individuals to obtain statistically useful information about a given topic. The researcher designed both open and closed ended questions concerned to effective and efficiency of internal auditors at Ghana Water Company. The standard questionnaire was used to ensure uniformity in the data collection process. This tool was chosen because it is an inexpensive and easy way to gather data for a research. Generally it is relatively quick to collect information using a questionnaire. The questionnaire was structured in a way to provide specific response to answer the research questions formulated for this study. The questionnaires were distributed to out to selected respondents to ensure that the objectives of the research as well as rights of the respondents are understood.

Data Analysis

Data collection instrument was sorted out and coded and the ones which had problems such as missing items and vague answers was excluded

from further processing and analysis. Quantitative techniques were used in analysing and presenting the results. These were descriptive tables based on responses from data collected through the questionnaires. It was chosen because of its appropriateness in communicating plainly the results made by the researcher and to correctly explain the outcomes of the study to all users. Quantitative data obtained from the questionnaires were coded and analysed with the help of the Statistical Product for Service Solution (SPSS) Sixteenth Edition (16.0). Each research question has a set of question items that were created in as variables to respond to the research questions. All the research questions were analysed quantitatively using descriptive statistics with the exception of question two which went further to be analysed through regression analyses. Descriptive statistics were employed to analyse the demographic characteristics of the sample. Tables, frequencies and percentages were used to present the findings.

Validity and Reliability

Validity refers to “the degree to which an instrument measures what it is intended to measure” (Polit et al 2004). The traditional criteria for validity find their roots in a positivist tradition, and to an extent, positivism has been defined by a systematic theory of validity. Within the positivist terminology, validity resided amongst, and was the result and culmination of other empirical conceptions: universal laws, evidence, objectivity, truth, actuality, deduction, reason, fact and mathematical data to name just a few (Winter, 2000 p67).

Generally the researcher used triangulation to resolve issues of validity about this research. This is because triangulation raised an important

methodological issue in naturalistic and qualitative approaches to evaluation in order to control bias and establishing valid propositions because traditional scientific techniques are incompatible with this alternate epistemology (Mathison, 1988,p. 13).Patton (2001) advocates the use of triangulation by stating “triangulation strengthens a study by combining methods. This can mean using several kinds of methods or data, including using both quantitative and qualitative approaches”.

Reliability on the other hand refers to “the degree of consistency with which the instrument measures the attributes it is designed to measure” (Polit et al 2004). Joppe (2000) defined reliability as the extent to which results are consistent over time and an accurate representation of the total population under study is referred to as reliability and if the results of a study can be reproduced under a similar methodology, then the research instrument is considered to be reliable. For the researcher to know whether the research was reliable, questionnaires were first piloted, questions were scientifically set and the sample was scientifically selected through the probabilistic sampling method. This offers the basis for different researcher to test the result of this study at any moment in time.

Ethical Consideration

Ethics refers to moral principles or values that generally govern the conduct of an individual or group. Researchers have responsibility to their profession, clients, and respondents, and must adhere to high ethical standards to ensure that both the function and the information are not brought into disrepute.

In conducting the data collection for the research some ethical and political challenges were anticipated such as confidentiality, anonymity, consent, difficulty in building a comfortable zone for interviews, consent seeking and data abuse. In resolving such challenges, the researcher explained clearly the purpose of the research, assure confidentiality and anonymity on the front page of the questionnaire and sought the consent of the respondent before the questionnaire was given to them and also clearly informed interviewees to be about their right to back out of the research anytime they wanted, and also explained the purpose of the research to them.

CHAPTER FOUR
RESULTS AND DISCUSSION

Introduction

This chapter emphasizes on the questionnaires, interviews and discussions whereby the findings are compared with other findings of other researchers to find out if they match or not with findings of other researchers. Statistical Package for Social Sciences (SPSS) was used in the analysis of the relevant data. The data was presented in a form of frequency tables.

Activities carried out by Internal Auditors at Ghana Water Company

The table below illustrates the major activities carried out by internal auditors in Ghana Water Company. Data gathered showed that compliance is the major activities undertaken with a total representation of 9 (36%) followed by financial audit which had a representation of 8 (32%) with operational/performance audit and internal control system evaluation been the least activities carried out at the Ghana Water Company.

Table 1: Internal Auditors activities

Respondents	Frequency	Percentage
Compliance	9	36
Financial Audit	8	32
Operational/Performance	4	16
Internal Control System evaluation	4	16
Risk Assessment	7	45
Total	25	100

Source: Field Work (2015)

It has been argued that an outsourced provider may be more independent than an in-house internal audit function as it is difficult for an employee to be truly independent of management (James, 2003). James (2003) found that an in-house internal audit function to be less objective. This means that the activities no matter how professional it is by an in-house cannot in entirety be a solid foundation for assessing the efficiency and effectiveness of the audit unit. The findings of the researchers above explained that Internal auditors may be reluctant to take strong positions on issues that arise if they know they are likely to be transferred. The problem is enhanced when the person in charge of the department may become the internal auditor's immediate superior. The internal audit has partially recognized this threat by not permitting staff transferred to internal audit to audit activities they previously performed until at least one year has elapsed. However, there is no guidance on the situation where staff may be transferred to the activity they are currently auditing. In contrast, Dickins and O'Reilly (2009) found a positive association activities undertaken by the audit department and a measure of it effectiveness and efficiency. They also found that the likelihood of the internal auditor reporting to the audit committee decreases with a greater level of outsourcing.

Efficiency of Internal Auditors and Ghana Water Company

Table 2: Effectiveness of Internal Audit

Response	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
Management Support				3 (60%)	2 (40%)
Access to records				5 (100%)	
Availability of needed resources		2(40%)		2(40%)	1(20%)
Budget for certification	1(20%)		1(20%)	2(40%)	1(20%)

Source: Field Work (2015)

Table 6 depicts the summary of the findings on the effectiveness of internal audit in Ghana Water Company. According to the findings, respondents pointed out that assessment of internal audit framework was effective because they receive management support in the duties, accounting information and communication and resources of individual systems and processes were available for efficient use. Internal audit thus are effective in Ghana Water Company because management and staff work with the available resources and policies as seen by the auditors. This means that internal audit can provide financial controls effectively, on-going and independent reconciliation of all balances, control information within Ghana Water Company, Methodical examination of budget processes and connected controls, Operational policies controls, Managerial controls and provision of independent verification of a sufficient sample of transactions to ensure integrity of the decision making process were also effective as confirmed by

Belay (2007). This implies that internal auditing as an instrument of improving management of Ghana Water Company.

The result is consistent with the previous auditing research works of (Mihret and Yismaw, 2007; Cohen and Sayag, 2010) they find that the top management support was the critical determinants of internal audit effectiveness in audit finding and the commitment to strength internal audit through the provision of the needed resource and personnel for internal audit staff, promote independence and efficiency of delivery by internal auditors. Similarly, in this research finding the managements support in terms of trainings, resources and through other necessary facilities to the internal auditors that management provides can contribute to the effectiveness of internal audit works for their office.

This means that the internal audit at Ghana Water Company can be said to be efficient because management do contribute for the effective result of the internal auditors through their support in terms of continuous provision of resources for the IA staff, fulfilling the necessary materials and facilities that the IA staff needs; and this in turn strongly supports their efficiency.

However, the result is inconsistent with the previous studies conducted by (Cohen, & Sayag, 2010; Van Peurse, 2005) they find that, the more organizational independence of internal auditors act other than support makes internal auditors more effective because they freely access necessary documents, information and data about the organization for audit work, and can provide audit finding /report/ freely and directly to the responsible body, and this all supports the IA effectiveness in their sector.

This finding in Sayag and Cohen (2010) in actual sense means the organisation is supporting the works of the internal auditors by supporting their independence. Thus their support to the IA effectiveness and accordingly, the level of independence, reporting level, direct contact to the board and senior management, conflict of interest, interference, the unrestricted access to all departments and employees, appointment and removal of the head of internal audit, and performing non-audit activity may not be equally perceived.

This means that without the relevant senior management support simply the independence of the organization of the internal auditors may not be enough to add value and to identify the noncompliance activities performed in their office. Therefore, the existence of adequate and competent IA staff in line with the appropriate management support for internal auditor's activity are strong enough to make effective the internal audit function in the public sector.

Effectiveness of Internal Auditors at Ghana Water Company

Regression analyses was carried out to assess the effectiveness of internal audit at Ghana Water Company using key variables as Professional Proficiency, quality of work, organisational independence , career advancement and management support against their audit environment, audit input, audit process and the overall output of the auditors. See Table 3

Table 3: Effectiveness of internal Audit

Audit Effectiveness	Audit Env. Input	Audit Process	Audit Output
Independent variables			
Professional proficiency	.025	.101	.125 -.033
Quality of audit work	.222	.240 *	.091 .093
Organizational independence	.145*	.138	.107* .115*
Career and advancement	-.025	-.235	-.033 -.184
Top management support	.609***	.475***	.568*** .618***
R ²	.485	.328	.351 .461
Adjusted R ²	.382	.194	.221 .353
Final F	4.704***	2.442*	2.707** 4.722*
N=47			
* P <= .05 ** P <= .01 *** <= .001			

The regression analyses, whose results are presented in Table 3, provide a more comprehensive and accurate examination of the research question. The regression analysis shows very strong support for question 2. Perceived top management support was the only variable that was strongly and consistently related to the four auditing effectiveness dimensions. Greater perceptions of organizational independence have a positive impact on internal audit effectiveness. Probably due to the very strong effect of the variable top management support, the effect of the other independent variables has been reduced.

The availability of approved IA department at the Ghana Water Company has positive and significant impact on the internal audit

effectiveness. A well drafted IA charter is a crucial ingredient for the successful internal auditing functions. This indicates the significant impacts of management to increase the ability of internal auditors to identify the noncompliance activities and the more contribution to the public sector.

In addition, the result of this study was consistent with the prior audit researches conducted by Peurseem(2005) who stated that a well drafted IA charter helps the internal audit function to perform its roles of management influence objectively and used as a way of getting access to the information (documents, records, systems, and personnel) that are necessary to perform and reach conclusions on the work.

Therefore, the existence of approved internal audit charter in Ghana Water Company contributes for the effectiveness of internal audit works by facilitating the activities of internal auditors and to make their purpose and authority in line with the standards for the professional practices formulated by the institute of internal auditors in accordance to the rules and regulations of the organization.

Table 4: Presence of Audit Department and Audit Committee

Years	Frequency	Percentage
YES	25	100
NO	0	0
Total	25	100

Source: Field Work (2015)

The existence of audit department adequate and competent internal audit staff also supposed to be the determinants of internal audit effectiveness. The analyses of the result highly support this objective by revealing that all the

respondents believe that the audit department at GWCL have adequate and competent staff. However, this result was inconsistent with some previous auditing researches because Cohen and Sayag(2010) argued that there were no correlation between professional proficiency and adequacy with the IA effectiveness.

However finding of Thai (2001) revealed that the availability of adequate and certified internal auditors in terms of their performance to proceed the required auditing activities by matching with the audit standards and organizational objectives makes audit staff more efficient. Therefore, the existence of adequate and competent IA staff in Ghana Water Company results with positively relationship with internal audit effectiveness. This results with the overall contribution of internal audit effectiveness and its positive relationship is instrumental for organisational growth.

In addition, the result of this hypothesis is consistent with the prior audit researches conducted by (Peursem, 2005; O'Regan, 2002). According to the authors a well drafted IA charter helps the internal audit function to perform its roles of management influence objectively and used as a way of getting access to the information (documents, records, systems, and personnel) that are necessary to perform and reach conclusions on the work. The MoFED (2004) also directs all the public sectors to have approved IA charters that are used as a working manual.

Therefore, the existence of approved internal audit charter in the public sector office contributes for the effectiveness of internal audit works by facilitating the activities of internal auditors and to make their purpose and authority in line with the standards for the professional practices formulated

by the institute of internal auditors in accordance to the rules and regulations of the organization.

Table 5:Improvement of control system, risk management and corporate governance

Years	Frequency	Percentage
Making decision based on recommendation	11	44.0
Trust in internal auditors	6	24.0
Report of internal auditors help achieve objectives	5	20.0
Internal auditors helps evaluate efficiency of policies	3	12.0
Total	25	100.0

Source: Field Work (2015)

In table 14, the rating of the respondents was analyzed using descriptive statistics. The findings revealed that respondents agreed that for decision making, recommendations and information provided by internal auditors were used (44%) and they also tended to agree that in their office they trust internal audit staff (24%), similarly, they agreed that the report of internal auditors help to achieve the expectation (20%). Finally, they agreed that internal audit helps in evaluating the effectiveness and efficiency of the implementation of management policies (12%). Vijayakumar (2012) said that an effective internal audit function provides independent assurance to the board of directors and senior management on the quality and effectiveness of an organisations internal control, risk management and governance systems and processes, thereby helping the board and senior management protect their organization and its reputation.

Challenges facing internal auditors in their efficient delivery of services

The success of the internal audit unit in delivering good corporate governance, as stated in the literature review, depends on the organisational settings, existence of approved internal audit charter, adequate resources, and existence of audit committee, management support and internal audit quality. To assess the effectiveness of the internal audit in the public institution in promoting good governance, critical factors of internal audit function in each of the above areas were identified and the researcher solicited the views of the internal auditors and the Ghana Water Company, Cape Coast in respect of these areas of their challenge.

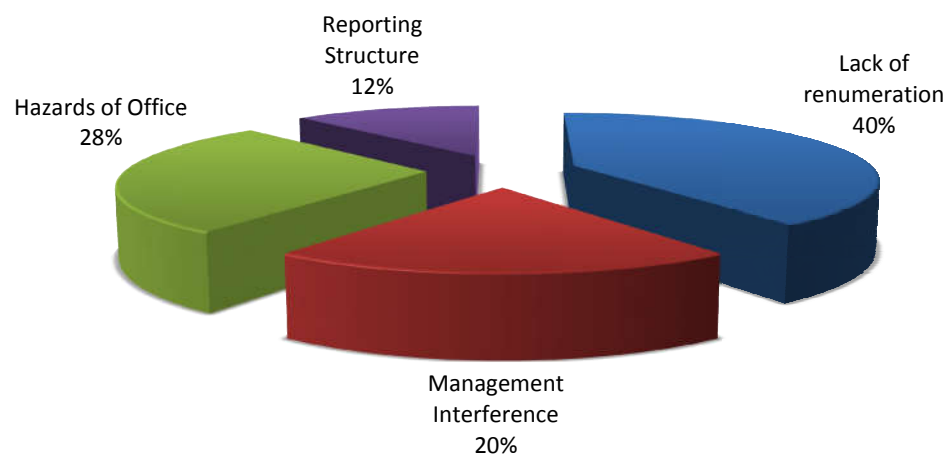


Figure 2: Challenges facing effective delivery of service by internal auditors

Source: Field Data (2016)

As per the professional standards of Institute of Internal Auditors, management interference is one of the key areas that will ensure effective delivery of internal audit service in the public sector. Figure 2 presents the results of challenges facing the internal auditors in their delivery of efficient and effective services.

From the responses in figure 2, it is found that management interference in the audit process is not good enough as 20% of the respondents expressed concerns about the interference of management during the execution of audit works. Majority of the respondents, (40%) stated that audit staffs are not given adequate remuneration to equip their work. It is interesting to note that hazards at the office in terms of witch hunting and using black magic against the auditors also pose threat to the auditors. This result thus confirms the findings of Arena and Azzone (2009) on all the challenges that auditors confront which hinders their efficient delivery of service.

The above result suggests that the internal audit units faces challenges that might hinder their efficient and effective delivery of work. This result corroborates the findings of Mihret, (2007) who discovered that internal audit units in the public sector received managerial interference. When management fails to implement internal audit recommendations, it sends a bad signal to internal audit staff that their work is not of value to the organisation and this would hinder the effectiveness of these units. The internal auditors also explained that management views them as fault-finders rather than adding value to an organisation. When the internal auditors are viewed as fault finders, it would create unhealthy relationship between the management and the internal auditor staff, thereby reducing the effectiveness of the internal audit units to carry out their professional work

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

Introduction

The purpose of this study was to carry out an investigation on how the functions of the Internal audit affects efficiency and effectiveness of staff of Ghana Water Company.

The researcher used explorative study design to describe the independent and dependent variable at the Ghana Water Company offices in Central Region. The researcher administered questionnaire to 25 purposively selected respondents' accountants, internal auditors, and other category of staff working in various branches of Ghana Water Company Central Region. The findings showed that majority of the respondents had experience of between 1-8 years or more. Audit committee existed in the organisation.

Summary of Findings

1. The finding showed that majority of the respondents had experience of between 1-8 years or more. Audit committee existed in Ghana Water Company.
2. Majority of the respondents were accountants
3. In general management support internal auditors with the needed resources and certification to work efficiently and effectively.
4. The overall rating on internal auditors' competence was high indicating that the respondent tends to agree that they were competent and qualified for the job.
5. In general rating, respondents tend to agree that their internal auditors 'useful recommendations were incorporated by the management.

6. Finally, the overall rating on Improvement of control system, risk management and corporate governance was high meaning that they tend to agree that Improvement of control system, risk management and corporate governance was done based on internal auditors recommendations.

Conclusions

Taking into account the difficult economic conditions that we are passing through, it's become obviously that one of the main challenge that will influence the next perspectives of internal audit development will be determined by the necessity for internal audit to prove the added value provided and so, to find the most relevant methods and techniques to evaluate internal auditing performance. With no doubt, we can conclude that both stakeholders and internal auditors themselves recognize the critical focus of management under internal audit is analyzed, which require the fundamental rethinking of the internal audit strategy. Therefore internal audit unit of the Ghana Water Company functions effectively and efficiently.

The internal audit effectiveness of the public sector office increases, when there were more supports from the management, have adequate and competent internal auditors staff in the office combined with the availability of approved IA charters. Therefore, the overall effect of the management support, the existence of adequate and approved IA staff, and the availability of approved IA charter in the public sector is very important for the IA effectiveness and efficiency in the public sector offices.

Recommendations

1. It is necessary for internal audit profession to achieve a significant step toward some radical changes with regard to how internal audit works and the value added by its functioning to meet successfully the requirements of managers, members of audit committees, and even internal auditors. Therefore, internal audit committee should give the internal auditors the opportunity to develop the range of skills necessary in carrying out tasks, focusing more insistently on the ability to identify potential risks and strategies to manage and mitigate these risks
2. The internal auditors of the public sector office should be recommended to maintain and improve their effective contribution for the IAE in their office, by using the supports from their offices management team appropriately, by improving their professional certification in line with the institute of internal audit standards and organizational guidelines and by introducing themselves with modern technologies that improve their IA function for their office.
3. As the research proved that the existence of approved IA charter, and adequate and competent IA staffs were the major determinants of IAE in the public sector, the MoFED were recommended to design, provide and continually evaluate the internal audit charters for each public sector office; and also the MoFED recommended to support the internal audit works by increasing the number of certified internal auditors by funding the certification fees and also by facilitating the way for certification

4. Management should support the internal auditors by training them and offering financial support.
5. The management should continue making sure that high professional qualification among internal auditors is maintained.
6. Management should make sure that all the internal auditors are registered and certified in their respective professional bodies for effective internal auditing.
7. A research should be done to compare the determinants of effectiveness of internal auditors in various financial institutions and other utility companies.

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APPENDIX A

QUESTIONNAIRE FOR INTERNAL AUDITORS

Demographic Characteristics

General Instruction: Please indicate your choice by putting “√” mark in the bracket.

1. Sex/Gender/: Male (____) Female (____)
2. Age (in year): 20 to 29 (____), 30 to 39 (____), 40 to 49 (____),
50 to 59 (____),
3. Your field of study: Accounting (____), Management (____), Economics (____),
other specify _____
4. Level of education: Diploma (____), Bachelor's Degree (____),
Masters Degree (____) or others specify _____
5. Professional certification (if any): Certified Internal Auditor (CIA) (____),
Chartered Accountant (____) Certified Management Accountant (CMA) (____),
other (specify) _____
6. Number of years of experience you work as an internal auditor:

7. Does your organization/sector have audit committee?
YES (____), NO (____)
9. What are the activities carried out by IA in your office? You can select
more than one.
A. Compliance audit B. Financial audit C. Operational/performance audit E.
Internal control system evaluation D. Risk assessment (analysis) audit

B. The questionnaire items (questions)

The Questionnaire is prepared in Likert-scale form with five (5) point scales. I ask you to tick (√) or circle the appropriate scale (point) that indicates your opinion in table below. The values of scales are 5= strongly agree, 4= Agree, 3= Neutral, 2= Disagree, 1= strongly disagree

MANAGEMENT SUPPORT FOR INTERNAL AUDITORS	RESPONSE				
	5	4	3	2	1
I receive full cooperation, access to records and information from my office/sector					
I can get the necessary resources (facilities) that help me to perform auditing activities as needed.					
The office supports me by providing training in order to improve my skill and update with the field.					
The office supports Internal Auditing staffs by budgeting funds for certification to have relevant education in auditing that allows them to audit all of the organization's/sector's systems.					

In your own view, how efficient are you to the demands of auditing by Ghana Water Company?

.....

What has been the best practices recorded as a result of the functions of the IA in Ghana Water Company?

.....

State some of the challenges the IA face in executing its functions and ensuring efficiency in the internal audit department.....

.....

.....