

UNIVERSITY OF CAPE COAST

**A STUDY INTO THE EFFECTIVENESS OF THE INTERNAL AUDIT UNITS IN
THE PUBLIC SECTOR IN PROMOTING GOOD CORPORATE GOVERNANCE
: THE CASE OF THE METROPOLITAN, MUNICIPAL AND DISTRICT
ASSEMBLIES IN THE NORTHERN REGION OF GHANA**

BY

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COAST, IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE
AWARD OF THE MASTER OF BUSINESS ADMINISTRATION
(ACCOUNTING)**

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DECLARATION

Candidate's declaration

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

Candidate's Signature.....

Date.....

Name: Abudu Dawuda

Supervisor's declaration

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

Supervisor's Signature.....

Date.....

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ABSTRACT

Corporate governance, as an antidote to corruption, has received significant public and regulators attention in today's global world and the internal audit has been identified as the most effective control mechanism to ensure good corporate governance in the public sector. This study, therefore, investigated into the effectiveness of the internal audit units in the public sector in promoting good corporate governance. It reviewed history of internal audit, corporate governance, internal control and factors that contribute to the effectiveness of internal audit. Descriptive research method was employed. Simple random sampling and census procedures were used to obtain data from 29 internal auditors and 9 branch heads of Ghana Audit Service in the Northern region of Ghana. Statistical tools used were mean and percentage. The study revealed that the internal auditors receive less management support and the audit committees in the assemblies are not effective. It is also evident that majority of the internal auditors did not have requisite skills and experience. The units also experienced inadequate resources allocation. This suggests that the internal audit units in the assemblies are not effective

Therefore, to ensure good corporate governance, the internal audit units should have appropriate governance structure, sufficient and appropriate resources and competent personnel.

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DEDICATION

This work is dedicated to my mother, Salmata Bakari who stood against all odds to make me who I am today. I will forever be grateful to her. It is also dedicated to my brothers, Mr. Amadu Musah Abudu and Mr. Abdulai Habib and my sister, Abudu Alimatu who sacrificed their resources for my MBA programme.

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CHAPTER ONE

INTRODUCTION

Background to the study

The need for financial accountability has existed ever since it became necessary for one individual to entrust the care of his or her possessions or business to another. In both private and public sector, the providers of economic resources are separate from the management of the organisations or the institutions. The owners therefore, required the management to account for their stewardship in the running of the organisations or the institutions. However, the difficulties to monitor managers and the information asymmetry between them and owners created problem regarding the stewardship of enterprises. Iain & Stuart (2000) described this as “agency theory”. Agency theory is part of the positivist group of theories which is derived from the financial economics literature (Adams, 1994). It postulates that a firm consists of a nexus of contract between the owners of resources (the principals) and managers (the agents) who are charged with using and controlling those resources. It is also based on the premises that agents have more information than principals and that they will use the contracting process to maximise their wealth (Adams, 1994).

The public sector represents a principal-agent relationship. The government officials must periodically account to the citizens for their use and stewardship of resources and the extent to which the public’s objectives have

been accomplished. The citizens do not have confidence in the information that the management of public institutions provide and therefore, rely on the third party's report. The need for a third party to attest to the believability (credibility) of the financial reporting, performance results, compliance, and other measures arises from the following factors inherent in the relationship between the principal and its agent:

1. **Moral hazards** — conflicts of interest: Agents may use their resources and authority to benefit their own interests, rather than the principal's interests.
2. **Remoteness**: Operations may be physically removed from the principal's direct oversight.
3. **Complexity**: The principal may not possess the technical expertise needed to oversee the activity.
4. **Consequence of error**: Errors may be costly when agents are stewards of large amounts of resources and are responsible for programs affecting citizens' lives and health (INTOSAI, 2001).

The citizens rely upon the auditor to provide an independent, objective evaluation of the accuracy of the government officials' accounting and to report on whether the government officials, use the resources in accordance with the citizens' wishes. To this end, the audit function has always been viewed as an integral part of government financial management, and increasingly as an instrument for improving the performance of public sector. Auditing covers a broad range of activities, which have different objectives. Traditionally, it has been a mechanism for assuring the government or its ministries (internal audit), and the legislature (external audit), that public funds

are received and spent in compliance with appropriations and other relevant laws (compliance audit), and that the government's reported use of funds fairly and accurately represents its financial position (financial audit). The audit function has evolved in many countries to take a more comprehensive view of the economic and social implications of government operations—often termed "value-for-money" or performance audit (Diamond, 2002). While internal audit and external audit face similar issues, generally most attention has been paid to the latter.

However, recently, there has been an increased interest and more emphasis placed on the internal audit function (Diamond, 2002). Events such as Enron, WorldCom, Arthur Anderson and Parmalat have further increased awareness of sound accounting and the internal audit function (Harris, 2004). Using the agency theory, Xiandgdong (1997) explained the roles that the internal audit plays in promoting good corporate governance and points out that the internal audit has an advantage over external audit in obtaining information quickly and finding problems at an earlier stage and Spraakman (1997), applying the theory of transaction cost economics, demonstrated how internal audit recommendations are important to the management of government organisations. Dittenhofer (2001) also argued that if the quality of internal audit is maintained, it will contribute to the effectiveness and efficient operations of an organisation.

The Institute of Internal Auditors (IIA, 1999a) defined internal audit as: “an independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations. It helps an organisation to accomplish its objectives by bringing a systematic disciplined approach to

evaluate and improve the effectiveness of risk management, control and governance processes”. This definition signifies that internal audit has undergone a paradigm shift from emphasis on accountability about the past to improving future outcomes to help Auditees operate more effectively and efficiently (Nagy & Cenker, 2002; Stern, 1994; Godwin, 2004). Godwin (2004) posits that this definition serves both private and public internal audit function. This definition would serve as the basis for examining the effectiveness of internal audit in the public sector in promoting good corporate governance.

Statement of the problem

Internal audit is a cornerstone of good public sector governance and it is essential for ensuring the operation and appropriateness of controls. It reviews compliance with existing financial regulations, instructions and procedures; evaluates the effectiveness of selected internal controls; appraises the efficiency and effectiveness with which resources are used; reviews reliability and integrity of records keeping and reporting, investigates irregularities; ensures that revenue is collected and accounted for and verifies inventory records and their relationship with physical inventory (INTOSAI, 2001). Internal audit is effective if it meets the intended outcome it is supposed to bring about. The internal auditor’s work is not done until defects are corrected and remained corrected (Sawyer, 1995). Van Gansberghe (2005) explains that internal audit effectiveness in the public sector should be evaluated by the extent to which it contributes to the demonstration of effective and efficient service delivery, as this drives the demand for improved

internal audit service. According to Zeleke (2007) the internal audit activities help to prevent corruption, misappropriation of funds and other financial irregularities and ensure effective and efficient utilisation of resources to achieve the objectives of the organisation.

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 every body 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 organisation? This has motivated the researcher to investigate into the effectiveness of the internal audit units in the Metropolitan, Municipal and District Assemblies (MMDAs) in the Northern region of Ghana in promoting good corporate governance.

Objectives of the study

As stated earlier, the focus of this study is to investigate into the effectiveness of internal audit units in the public sector in promoting good corporate governance. It specifically sought to:

1. Find out the elements of good corporate governance.
2. Find out the activities that the internal auditors perform in the assemblies.
3. Bring into light the factors that contribute to the effectiveness of internal audit units in the public sector.
4. Find out the advisory roles of the internal auditors in the assemblies

Research questions

The following questions have been developed to guide the study.

1. What are the elements of good corporate governance?
2. What are some of the activities in the assemblies that the internal auditors perform?
3. What factors make the internal audit units effective?
4. What advisory roles do internal auditors play in the assemblies?

Significance of the study

It is the conviction of the researcher that the findings of this study would benefit a wide spectrum of people. These include management of the

various assemblies, the central government, Ghana Internal Audit Agency, internal auditors, external auditors, standards setters in accounting and auditing and the general public.

The effectiveness of the internal audit unit requires the scope of internal audit work to be clearly defined in internal auditor charter. This information will help the Internal Audit Agency and other regulatory bodies to define the scope of work, the responsibilities, and audit requirements of the internal auditors in the charter. This to the researcher will further strengthen the independence of the internal auditors thereby making them effective. It will also enable the governing body, especially the management, the higher responsible body, and audit committee of the assemblies and any other organisations in the public sector, to be aware of the importance use of internal audit, and gives insights into how they use the internal audit service most efficiently. Another important significance of this study is that, it will guide the internal auditors in their professional work. It emphasises the need for internal auditors to approach their work with professionalism, integrity, confidentiality, good ethical behaviour, competencies in order to contribute meaningfully to the realisation of the objectives of the organisation.

Some organisations in the public sector still have wrong perception about the work of internal audit units and are not willing to install them. The

findings of this study will motivate these organisations to also add internal audit units to their functional areas for effective risk management and improving performance of these organisations. Last but not least, it will also contribute to existing literature for those who will conduct future research in this field or other related areas.

Delimitations of the study

The study was confined to the Metropolitan, Municipal and District Assemblies in the Northern region of Ghana. The participants include only the internal auditors, finance officers and the branch heads of Ghana Audit Service in the region. The scope of the study focused on the framework of the effectiveness of the internal audit units provided by the Institute of Internal auditors (2009).

This framework deals with the support the internal auditors received from stakeholders especially management, the quality of the internal audit, the presence of audit committee in the organisation, the approved mandate and internal audit charter and the organisational settings as some of the factors that ensure the effectiveness of internal audit.

Limitations of the study

Although great care was taken in obtaining accurate and useful information, this research study has certain limitations. The research method used has certain shortcomings that should be noted, especially when the conclusions drawn from the analysis of the data are considered (Zimund, 2000). These shortcomings include, first, the study was based on examining

the effectiveness of the internal audit units in the assemblies and the respondents were required to express their opinions. These opinions may not represent the true situation. Secondly, the researcher encountered difficulties in collecting data as some of the respondents were not ready to accept the questionnaires. The researcher visited the assemblies several times to convince the respondents by explaining the relevance of the study to them. To even get access to the internal auditors, the researcher had to seek permission in writing from the coordinating directors. This has consumed the time and resources of the researcher more than expected. Even though the respondents later agreed to accept the questionnaires, the response rate from the finance officers was low (7%) and the researcher thought it wise to exclude them from the analysis since 7% did not represent the Finance officers . Therefore, the research questions were answered using only the responses from the external auditors and the internal auditors. Lastly, the study was confined to Northern region and this would limit the generalisation of the findings to other regions.

However, the findings of this study may not differ much from other regions since all the assemblies draw their policies and procedures from the central government and the internal auditors also apply the same internal auditing standards, Act and policies.

Organisation of the dissertation

This study is organised into five chapters. The chapter one deals with the introduction which comprises background to the study, statement of the problem, the objectives of the study, research questions, significance of the study, limitations and delimitations of the study. The chapter two focuses on the literature review. The chapter provides the meaning and evolution of the

internal audit, corporate governance, internal control system, internal audit and external audit and the determinants of the effectiveness of internal auditor. The third chapter covers the methodology employed for the study. The sample and the research instruments are clearly described in this chapter. The last section deals with procedures adopted for gathering and analysing the data. The fourth chapter presents the findings and discussions of the results. The final chapter which is chapter five presents the summary of the findings, conclusions and the recommendations.

CHAPTER TWO

LITERATURE REVIEW

Introduction

This study focuses on the effectiveness of the internal audit unit in the public sector in promoting good corporate governance. In order to achieve the objectives of this study, analysis of both empirical and opinion literature on internal auditing were made. In reviewing the literature, the following areas were considered:

1. Brief history of internal audit
2. Evolution of internal audit
3. Establishment of internal audit service in Ghana.
4. Corporate governance system
5. Internal audit and internal control
6. Internal audit and external audit
7. Conceptual framework: factors that contribute to the effectiveness of internal audit.

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 organisation is important because organisation 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.

Evolution of internal auditing

By the seventies, internal audit practices had been expanding in scope in many parts of the world for some time now. The Table 1 below shows an indication of growth and development of the internal auditing profession.

Table. 1 Evolution of internal auditing

| | |
|---|------|
| 1. Check accounting records | 1950 |
| 2. Assess compliance | 1960 |
| 3. Examine procedures | 1970 |
| 4. Evaluate controls | 1980 |
| 5. Report on system of internal control | 1990 |
| 6. Assess risk management | 2000 |
| 7. Facilitate risk management | 2001 |
| 8. Assure risk/ control | 2002 |
| 9. Add value | 2003 |
| 10. ? | 2004 |

Source:Pickett (2004)

According to Pickett (2004) the evolution and development of internal audit has gone through the following steps:

Checking accounting records

It had already been argued that internal auditing started out as a way of double-checking accounting records. A small team would be set up in the accounts section to examine as many financial transactions as possible and determine whether they were correct or not.

Assess compliance

Over the years, there have been some attempts to move away from focusing only on the financial aspects. Audit team would also assess the extent to which operations staff complied with financial and basic offices procedures and regulations. This would typically be performed at a remote site where the

rules on the receipt and banking of money, payment of vendors, staff claims, stock management and petty cash would be checked by the internal auditor.

Examine procedures

This stage emphasises auditing procedures and make sure those procedures are followed. The audit team would review files and records and upon finding problems, try to suggest improvement and list the errors for correction.

Evaluation control

Further advancement was possible, where the focus on procedures was broadened to the much more dynamic concept of controls. Proper performance was seen as to relate to more than simply following the procedures manual. Performance encompassed the interaction of all measures that ensure that staffs were equipped and able to set targets, perform and measure the extent to which they have been successful.

Report on system of internal control

The next stage of development appeared in the form of the auditors providing an independent view on various systems of internal control employed by the organisation.

Assess risk management

In 1990s, internal audit moved towards risk management to stave criticism of organisation that had been damaged or even destroyed by scandals, mismanagement, or event that had a major adverse impact on their business. The call for systems of operational risk management underpinned the

emphasis on corporate governance across all types of business and public bodies.

Facilitate risk management

There was a shift from just risk management to develop a system that would place internal auditors a position to be very proactive in identification, assessing and facilitating risk management. The Enterprise risk management model was developed to guide and develop the competencies of internal auditors to manage the risk of an organisation.

Report risk assure controls

At this stage, there is need to report the result of auditing work to a high-level body in the organisation. In turn, the board reports on its system of internal control in the annual report.

Add value

Recently, internal audit is described as adding value to the organisation. Adding value is described by the Institute of Internal Auditor (IIA, 2006) in the following way: “Organisation exists to create value or benefit to their owners, other stakeholders, customers and clients.” This concept provides the purpose for their existence. Value is provided through development of products and service. In the process of gathering data to understand and assess risk, internal auditors develop significant insight into operations and opportunities for improvement that can be extremely beneficial to their organisation. This valuable information can be in the form of consulting, advice, written communication or through other products, all of

which should be properly communicated to the appropriate management or operating personnel

Establishment of internal audit service in Ghana

To further strengthen Ghana internal audit service, Internal Audit Agency was established in 2003 by Act of parliament. The agency is an autonomous body that appoints internal audit personnel for the Ministries, Departments and Agencies (MDAs) and the Metropolitan, Municipal and District Assemblies (MMDAs) and each internal audit unit shall furnish the agency, annual report through the Regional Coordinating Council. The object of the agency is to coordinate, facilitate and provide quality assurance for internal audit within the Ministries, Departments and Agencies (MDAs) and the Metropolitan, Municipal and District Assemblies. The functions of the agency include:

1. The Agency shall set standards and procedures for the conduct of internal audit activities in the MDAs and MMDAs.
2. The Agency shall ensure that:
 - i. financial, managerial and operating information reported internally and externally is accurate, reliable and timely;
 - ii. the financial activities of MDAs and MMDAs are in compliance with laws, policies, plans, standards and procedures;
 - iii. national resources are adequately safeguarded;
 - iv. national resources are used economically, effectively and efficiently;
 - v. plans, goals and objectives of MDAs and MMDAs are

- achieved; and
- vi. Risks are adequately managed in the MDAs and MMDAs.
3. The agency shall:
- i. promote economy, efficiency and effectiveness in the administration of government programmes and operations;
 - ii. prepare plans to be approved by the Board for the development and maintenance of an efficient internal audit for the MDAs and MMDAs;
 - iii. facilitate the prevention and detection of fraud; and
 - iv. provide a means for keeping the MDAs and MMDAs fully and currently informed about problems and deficiencies related to the administration of their programmes and operations and the necessity for appropriate corrective action.
4. The Agency shall monitor, undertake inspections and evaluate the internal auditing of the MDAs and MMDAs.

Corporate governance

The decentralisation of government power and authority to make decisions at Metropolitan, Municipal and District Assemblies levels makes government effective and at the same time creates the agency relationships and problems (Smoke, 2006). According to Centre for Democratic Development (CDD), Ghana (2000), the common agency problem in the public sector is corruption. Corruption and misappropriation of resources have adverse effect on socio-economic and political growth in a country. According to Parker (2005a), corporate governance during the last century has gradually come into the spotlight and became a matter of great interest and debate. The

effusion of corporate frauds and failure enhanced that interest while contemporaneously brought company directors, accounting profession into sharp focuses (Parker, 2007). Corruption has a high tendency to undermine efforts to improve standard of living. A study conducted by CDD, Ghana, in 2000 revealed that corruption is a major problem in both public and private sector with 86% of the households perceived corruption as a major problem in the public sector.

Corporate governance is one of the most effective tools to reduce the incidence of corruption (Zelege,2007). The investors need an assurance that their investment will not be channelled to unproductive activities and on the other hand businessmen seek ways to attract investors, fulfil their expectations, with a view to make profit or for others to maximise the value of the firm. To achieve this, most corporations have embarked on corporate governance reforms. Lack of or weak governance systems provide good environment for corruption to thrive (Mensah, Aboagye, addo & Buatsi,2003).

The term corporate governance has been identified to mean different things to different people. Santosh (2005) has explained that: “Corporate governance is the framework within which companies are directed and controlled. It basically shows the tone at the top- how management wants to control the affairs of the company. Corporate governance is therefore, concerned with the issue such as the effectiveness and efficiency of operations, the reliability of the financial reporting (disclosure norms and practices), compliance with laws and regulations and safeguarding of assets”.

The corporate governance structure specifies the distribution of rights and responsibilities among different participants in the corporation such as the boards, managers, shareholders and other stakeholders and spells out the rules and procedures for making decisions on corporate affairs. By doing this it also provides the structure through which the company's objectives are set and means of attaining those objectives and monitoring performance. Financial scandals around the world and the recent collapse of major corporate institutions in the USA, South East Asia, Europe and Nigeria such as Adelphia, Enron, Worldcom, Commerce Bank and recently XL holidays have shaken investor's faith in the capital markets. This has brought to the fore the need for the practices of good corporate governance.

Corporate governance is therefore, a combination of processes and organisational structures implemented by the Board of Directors to inform, direct, manage, and monitor the organisation's resources, strategies and policies towards the achievement of the organisation's objectives (Rezaee, 2002). Mensah, Aboagye, Addo & Buatsi, (2003) also explained that, "corporate governance is concerned with the processes, systems, practices and procedures that govern institutions, the manner in which these rules and regulations are applied and followed, the relationship that these rules and regulations determine or create, and the nature of those relationship". One can infer from the above definitions that, sound corporate governance encourages the efficient use of resources and provides for accountability for the stewardship of those resources. It can also create safeguards against corruption and mismanagement, while promoting fundamental values of a market economy in a democratic society. These democratic values include

accountability, transparency, and rule of law, fairness, and responsibility (Belay,2007).

Internal control system

In the private sector, company directors are responsible for determining policy, monitoring performance and taking corrective action if either policy or its implementation is defective. Internal control provides a means of assurance that corporate objectives are being achieved. The institute of internal auditors (IIA, 2006), defines internal control as:

A process within an organisation designed to provide reasonable assurance regarding the following primary objectives:

1. the reliability and integrity of information;
2. compliance with policies, plans, procedures, laws and regulations;
3. the safeguarding of assets;
4. the economic and efficient uses of resources;
5. the accomplishment of established objectives and goals.

Internal control systems are therefore, fundamental to the success and survival of organisations. They put an organisation on the trails. However, organisations sometimes go off the trail. This was the problem (failure of giant companies in USA) that resulted in the report of the Treadway Commission on fraudulent financial reporting and the formation of the Committee of Sponsoring Organisations of the Treadway Commission (COSO Model, 1985). The COSO Model is dedicated to improving the quality of financial reporting through business ethics, effective internal controls, and corporate governance. According to COSO Model (1985), internal control is a process,

affected by an entity's board of directors, management and other personnel designed to provide reasonable assurance regarding the following categories:

1. effectiveness and efficiency of operations.
2. reliability of financial reporting.
3. compliance with applicable laws and regulations.

The COSO Model identified the key concept of internal control as:

1. internal control is a process. It is a means to an end and not an end itself.
2. internal control is affected by people. According to the model, internal control is not merely policy manuals and forms, but people at every level of an organization.
3. internal control can be expected to provide reasonable assurance, not absolute assurance, to an entity's management and board.
4. internal control is geared to the achievement of objectives in one or more separate but overlapping categories.

The rationale behind the COSO Model include:

1. weak internal control systems lead to corporate losses and failure as in the case of Enron and WorldCom.
2. internal control systems are the responsibility of directors, management and employees. However, they are particular responsibility of the board of directors.
3. internal control is a moving target. It must be monitored and adapted to fit the circumstance. If it is neglected, it will deteriorate, lose relevance or prove ineffective.

Internal control in the public sector

Ministries, Departments and Agencies and Metropolitan, Municipal and District Assemblies do not have directors. Government wide laws and regulations regulate their affairs. Certain assets such as buildings and infrastructure may be outside the control of those who occupy them. Moreover, government entities rarely if ever collapse due to internal control failures and do not need to report to shareholders as the case may be in the private companies. The question that everyone may ask is, how relevant is internal control in a government context? It is relevant because government is the custodian of the resources owned by the citizens and they expect effective and efficient utilisation of these resources to promote economic growth and development. The weakness or absent of internal control in a government institutions may lead to corruption, misappropriations of funds and inefficiencies in the systems (CDD Ghana, 2000). The compounded effects of corruption, misappropriation of funds and inefficiencies includes; low standard of living, government budget deficit and inequality of redistribution of resources.

One way of understanding the need for government systems of internal control, is to think of government entities as corporate bodies and to ask how system of control used in large private sector entities are relevant to management improvements (IFAC, 2006). It is appropriate for each local government level to develop its own internal control system that will ensure transparency, public accountability, effectiveness or efficiency and responsiveness

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 organisation, 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.

Internal audit and external audit

Due to the increase in size and complexities of business units, internal auditing is becoming increasingly important. However, from the view point of external auditor, internal auditors represent one of the elements of internal control and perceived them as their assistant. With the newly defined internal audit, internal audit function is seen as independent, objective assurance and consulting activity designed to add value and improve an organisation's operations (IIA, 2009). The external and internal auditors are not competitor and their efforts should be complementary to each other as both are necessary for the attainment of the objectives of an organisation. The practitioners in the

two folds use basically identical auditing techniques. They both have common objectives of ensuring that an organisation's systems of internal controls are effective to prevent or detect fraud and errors and to provide adequate information necessary for preparing financial statements to reflect true and fair view of the state of affairs of the organisation.

However, internal and external auditors are different in terms of the application of auditing techniques, independence, reporting and interest served. Internal auditors are employee of the organisation whose records and procedures they examine. They owe their primary allegiance to company. Their jobs, compensations, opportunities for advancement are controlled by the same management that controls and supervised the accounting department under examination. This does not mean that internal auditors do not have some level of independence. According to Millichamp, (2002), the internal auditors should be placed in the organisational pattern of a business with independence in mind. Being bound more closely to its company than an external auditors bound to their clients, the internal auditing department enjoys a somewhat smaller degree of independence as compare to external auditor. The internal auditors work under the direction of the management of an organisation or institution and they may be concerned with areas of managerial control. The objectives, therefore, is to assist management in the effective discharge of their responsibilities. To this end, internal auditing furnishes them with analysis, appraisal, recommendations, counsel and information concerning the activities reviewed. On the other hand, the external auditors are concerned with expressing their opinions on whether the financial statements of the auditee show true and fair view and whether the auditee complies with its own

internal control systems, accounting standards and other legal requirements. The internal audit unit draw its mandate from internal audit charter while external auditors draw their mandate from companies code and other statutory regulations. With the reporting line, internal auditors report to top management or audit committee, but external auditors report to members of the organisation.

Despite these differences, external auditors can not do away with internal auditors because internal auditors are part of internal control system and are described as eyes and ears of the organisation (IIA, 1999). With the help of the internal auditors, the external auditors would be able to complete their audit assignment within the timeframe. It is worth to mention that, the extent to which the external auditors rely on the internal auditors depends on the effectiveness of the internal audit unit. According to Millichamp (2002), the external auditors would rely on the internal auditors when:

1. the internal auditors enjoy organisational independence;
2. the unit is adequately resourced;
3. there are competent and experienced internal audit staff;
4. the recommendations of the internal auditors are implemented.

The reliance on the internal auditors by the external auditors does not relief the later from their responsibilities as stated in the auditing standards and the companies code of Ghana.

Conceptual framework

The researcher adapted the Conceptual framework of the effectiveness of internal audit provided by IIA (2006). It provides comprehensive

determinants of internal effectiveness for both public and private sector (see Appendix A)

Existence of audit committee

An audit committee is an independent committee which comprises experts from various fields in the organisation. It plays significant role in promoting good corporate governance. As part of corporate governance structure, audit committee is one of the key players in ensuring that, resources are safeguard and utilised efficiently and effectively in achieving an organisational objectives. The presence of audit committee in an organisation protects the independence of internal auditors which is one of the qualities of auditors. Bishop, Hermanson & Lapides (2000), argue that cooperation between internal auditors and audit committee is an important element of sound corporate governance. The relationship between the audit committee and internal auditors is an important one, with both a reciprocal strengthening of each other's function (Goodwin & Yeo,2001). This means that audit committee can strengthen the internal audit function by protecting their independency and also makes sure that audit recommendations are implemented by management. Internal auditors on the other hand, can be important resources to the audit committee as it strives to fulfil its responsibilities (Turley & Zaman, 2004). The assertion of Turley & Zaman, 2004 is in line with Bishop et al., (2001), who posit that internal audit is a valuable resources that can provide information needed for audit committee to meet their governance mandate.

The professional audit standards and codes of ethics

Traditionally, the scope of work and responsibilities, reporting line and appointment of internal auditors were done by management. This had made it possible for management to have full control over the activities of internal auditors, thereby interfering with the independency of the internal auditors. In recent times, IIA provides standards and code of ethics for internal auditors. The purpose, authority, and responsibility of the internal audit activities should be formally defined in a charter, consistent with the standards and approved by the organisation's audit committee (IIA, 2009). Standards and code of ethics provide that, an effective internal audit unit acts as an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. Since 1978, the standards and code of ethics have set out the expected approach, principles, and behaviours that internal auditors apply to their work. Adopted by worldwide standard-setting bodies in the public sector, as well as by all IIA members, the standards and code of ethics are the profession's foundation and quality benchmark. By following standards and code of ethics, internal auditors can provide an effective, independent assurance and consulting service to their organisations.

To reduce the incidence of impairment of independency of internal auditors, the corporate governance board which includes audit committee, should set out internal audit charter. According to IIA (2006), the internal auditors should draw their powers, authorities, and responsibilities from the charter instead of taking instructions from management. The section 1000.A1 of the IIA (2009) provides that, the nature of assurance service provided to the organisation must be defined in the internal audit charter. The mandatory

nature of the definition of internal auditing, the code of ethics, and the standards must be recognised in the charter.

Management support

Management support for internal audit unit is another important factor that determines the extent to which the unit can fulfil its objectives. The commitment and support of top management is essential for the effective internal audit. Management can demonstrate its support for internal audit by emphasising the value of independent and objective internal auditing in identifying areas for improving performance quality and by implementing the recommendations of internal audit unit. In the case of district, municipal and metropolitan assemblies, the chief executives and other high government officials should show a high commitment in improving the quality of internal audit. Support for the internal audit unit in all parts of the organisation to ensure as far as possible that the auditors are treated with respect. It would be important that the role of internal audit and its powers are well understood within the organisation.

To a large extent, internal audit is as useful as management allows it to be. If internal audit issues reports which are critical of certain part of the organisation and management takes no action for political reasons, this would only serve to undermine the internal audit function and reduces its effectiveness (Gray & Manson, 2000). According to Mihret & Yismaw (2007) management's failure to implement recommendations of internal audit has far reaching implications on the auditor's attitude towards improving audit quality, their commitment to develop a career as internal auditors. This is also in line with the thinking of Van Gansberghe (2005), who submits that the

implementation of audit recommendation is highly relevant to internal audit effectiveness. Mihret & Yismaw (2007) also added that audit findings and recommendations would not serve much purpose unless management is committed to implement them. The findings of these studies implies that people would not find internal audit profession attractive to them and even those who take internal audit appointment may not demonstrate high professionalism in carrying out their duties if they do not see how they contribute to the overall achievement of an organisational objectives.

Adams (1994) used agency theory to explain that it is in the interest of management to maintain a strong internal audit department. While there is a degree of continuing communication between internal auditors and management, internal auditors should not be commanded by the top management, and there should be no intervention by the management to affect the audit results. The mandate, scope, methodology, and results should be determined solely by the internal audit charter without seeking consent from top management.

Organisational setting

Organisational setting includes the status of internal audit in the organisational structure; the probity of internal audit office, budgetary status of the internal audit office; the policies and procedures of the organisation; and the existence of sound established criteria to evaluate auditee's practices and organisational independency. It provides the context in which the internal audit operates. Therefore, organisational setting can exert influence on the level of effectiveness that internal audit could achieve.

Organisational policies and procedure

In order to make internal auditing effective, there should exist clear policies and procedures against which organisational practices are to be gauged. The policies and procedures should be well-understood by internal auditors so that they can help to improve upon those policies and procedures. According to Mihret & Yismaw(2007), this component of the organisational setting factor rates fairly in terms of its influence on audit effectiveness. IIA (2009) explains that the chief executive must establish policies and procedures to guide the internal audit activity. These policies and procedures would specify the responsibilities of internal auditors and how audit reports should be presented and who should receive the reports.

Internal audit status and organisational independency

Organizational independence allows the audit activity to conduct work without interference by the entity under audit. The audit activity should have sufficient independence from those it is required to audit so that it can both conduct its work without interference and be seen to be able to do so. Coupled with objectivity, organizational independence contributes to accuracy of the auditors' work and the ability to rely on the results and report (Zelege, 2007).

The level of contribution that internal auditors can make in improving risk management and organisational performance depends on its status in the organisation. The internal audit function of an organisation should be given a sufficiently high status in the organisational structure to enable better communication with top management and to ensure independence of internal auditor from auditees (Mihret & Yismaw 2007). This argument was in line with the assertion of Zelege (2007), who argued that organisational

independence allows the audit unit to conduct work without interference by the entity under audit. The audit unit should have sufficient independence from those it is required to audit so that it can both conduct its work without interference and be seen to be able to do so.

IIA (2009:1100), emphasis that the internal audit activity must be independent and internal auditors must be objective in performing their work. IIA (2009) defined organisational independence as “the freedom from conditions that threaten the ability of the internal audit activity or chief audit executive to carry out internal audit responsibilities in unbiased manner”. The internal auditors in practical manner can not be independent from management but the independency has to do with the mental attitude and objectivity of the auditors. Independence is paramount value in providing effective internal audit service to the management, for it affords an atmosphere of objective and uninhibited appraisal and reporting of findings without influence from the units being audited. According to Van Gangesberghe (2005), internal audit must contribute positively to management, while at the same time not becoming its servant but faithfully report on the status to the board or other equivalent governing body. Audit should be isolated from any intervention posed against its objectivity. The status of internal audit should provide job security for internal auditors so that they can not be dismissed for the sake of producing objective findings. In institutions, the organisational structure of internal auditors represent variations that highlight two outstanding issues regarding objectivity: statutory independence and budgetary independence. Management who are involved in corrupt practices often become eager to intervene in the audit reviews, scope of work, and the results. To avoid such

attempts, the head of internal audit should hold an adequately powerful position to be isolated from such influences. A concrete audit charter to bind all parties strictly is considered the most effective way to reduce outer influence.

Unrestricted access

Audit should be conducted with complete and unrestricted access to all forms of audit evidence like employees, property, policies and procedures of internal control systems, key information necessary for audit work (Zeleke, 2007). The IIA (2009), states that the internal auditors must be allowed total access to assets, employees, records and all forms of audit evidence necessary for their work. The authority of the internal auditors to have total access to audit should be stated in the internal audit charter of the organisation.

Budgetary status of the internal audit

The audit activity must have sufficient funding relative to the size of its audit responsibilities. This important element should not be left under the control of the organization under audit because the budget impacts the audit activity's capacity to carry out its duties. The efficiency and effectiveness of internal audit unit depends on the availability of resources. Inadequate resources will limit the scope of audit work.

IIA (2009:2030) states that the chief audit executive must ensure that internal audit resources are appropriate, sufficient and effectively deployed to achieve the approved plan. The required resources needed by the internal audit unit are normally determined at the early stage of audit plan so that it can be incorporated into the master budget of the organisation. The audit activity

must have sufficient funding relative to the size of its audit responsibilities. This important element should not be left under the control organisation under audit because the budget impacts the audit activity's capacity to carry out its duties (Zelege, 2007). Modern auditing demands the use of appropriate technology and auditing the technology itself as audit area, developing staffs through several cost effective means like training. The opportunity to seek for outside expertise when the need arises could also enhance the work of internal audit (Zelege, 2007).

Internal audit quality

Internal auditors must possess the knowledge, skills and other competencies needed to perform their responsibilities. According to IIA (2009), knowledge, skills and other competencies is a collective term that refers to the profession proficiency required of internal auditors to effectively carry out their professional responsibilities. The knowledge, skills and other competencies would enable internal auditors to plan their audit work properly, perform and communicate on timely basis the findings and recommendations to the right people. The internal audit work includes; numerical strength and expertise of staff, the scope of service, audit planning, field work and quality review and audit communication.

Numerical strength and expertise of staff

The internal audit unit can plan, perform and communicate the findings and recommendation effectively if it has the required number of staff with requisite skills and knowledge. For internal audit to be effective, it needs to be well-resourced in order to meet quantitative and qualitative demands of the

audit process. Both the quantitative of audit effort and the quality of professional care exercised will determine the overall quality of the internal audit work. Zain, Subramaniam & Goodwin (2004), argue that the size of the internal audit function as well as the extent of prior audit experience of the internal audit staff are likely to enhance the quality of the internal audit. Zain et al., (2004), explained that in a larger internal audit unit, there will be more staff and consequently it can be expected that the scope of the internal audit work covered would be much greater than in a smaller sized unit. When the internal audit staffs are inadequate, it limits the scope of work and more importantly, because audit work is time bound, the internal auditors may not be able to meet the deadline. The internal audit unit with the larger staff will provide an opportunity and flexibility of staff rotation. Given that internal audit staffs overtime are likely to develop familiarity with the operational and organisational employees, staff rotation is likely to promote a more healthy relationship, resulting in more objective audit investigation (Zain et al., 2004).

The research findings of Mihret & Yismaw (2007) also revealed that internal audit staff rotation will enhance the independence of the internal and this would contribute to effective internal audit. This assertion support the submissions of Zain, et al (2004). The studies of Mihret & Yismaw (2007) and Zain et al., (2004) are in line with the empirical findings by Gul & Subramaniam (1994). Based on an experimental study of internal auditors, they found that internal auditors in a situation of high familiarity with operating personnel were less objective when faced with an audit conflict than those auditors in situation of low familiarity. Zain et al., (2004) further argue that the large proportion of internal staff with knowledgeable and prior audit

experienced, the higher the internal audit quality. It is expected that a functional unit with experienced staff will undertake duties more effectively because they should be more competent and conversant in discharging their responsibilities based on prior work experience. For instance, when more experienced staff encounters difficulties situations or complex multi-task, they will be able to deal with such situations more quickly and effectively than their less experienced counterparts. In addition, internal audit staffs with prior experience and expertise in auditing are also expected to provide more valuable input towards improving the internal controls of the organisation. A higher proportion internal audit staff with prior audit experience should enhance the quality of the internal audit work, leading to greater propensity for external auditors to rely on internal audit work.

Due professional care

The internal audit quality also requires internal auditors to approach their work with due professional work. The internal auditors must apply the care and skills expected of a reasonably prudent and competent internal audit (IIA, 2009). The standard provides that, the internal auditors must exercise due professional care by considering the:

1. extent of work needed to achieve the engagement's objectives
2. relative complexity, materiality, or significance of matters to which assurance procedure are applied
3. adequacy and effectiveness of governance, risk management and control process
4. probability of significance errors, fraud, or non-compliance
5. cost of assurance in relation to potential benefits

6. objectivity and professional judgement of materiality and risk assessment

In exercising due professional care, internal auditors must consider the use of technology-based audit and other data analysis. The internal auditors must be alert to significant risks that might affect objectives, operations or resources.

Audit planning

Planning is generally considered a vital activity and includes preparing a strategic plan, annual plans and programs for individual audit assignments. For internal audit to be effective, it must have a comprehensive audit plan that defines the objectives, the scope of work over a period of time, the time schedule for individual audit assignment and the resources needed to carry out the audit work. According to Mihret & Yismaw (2007), audits plans enable the audit staff to evaluate risk and identify high-risk areas that deserve audit attention. An effective internal audit function require the head of the internal audit office to periodically report to top management or audit committee on the internal audit activity's purpose, authority, responsibility and performance relative to its plan.

Communication

The audit work is not complete until the findings and recommendations are communicated to the right people at the right time. The internal auditors should issue a written audit report upon completion of audit and do a follow-up to ensure that recommendations are implemented. According IIA (2009:2420), audit communication must be accurate, objective, clear, concise,

constructive, complete and timely. It states that; “Accurate communications are free from errors, distortions and are faithful to the underlying facts. Objective communications are fair, impartial and unbiased and are the result of a fair-minded and a balanced assessment of all relevant facts and circumstances. Clear communications are easily understood and logical, avoiding unnecessary technical language and providing all relevant information. Concise communications are to the point and avoid unnecessary elaboration, superfluous detail, redundancy and wordiness. Constructive communications are helpful to the engagement client and the organisation and lead to improvement where needed. Complete communications lack nothing that is essential to the target audience and include all significant and relevant information and observations to support recommendations and conclusions. Timely communications are opportune and expedient, depending on the significance of the issue, allowing management to take appropriate corrective action.” If the final communication contains a significant error or omission, the chief audit executive must communicate corrected information to all parties who received the original communication.

The internal control and structure in government institutions should provide a clear channel of communication between and within relevant entities. Management take the responsibility for the risk of not implementing the audit recommendations; however, internal auditors owe it a duty to do a follow-up to ensure that management implement the recommendation (Walker, 1996). Keating (1995), claims that the internal audit work is only beginning when audit reports are issued. This suggests that a follow-up is critical to bring about outcomes. If a follow-up is weak or absent, the impetus

gained by audit recommendation will be lost and the credibility of internal audit will suffer (Mihret & Yismaw 2007). This suggests that, no matter how well the internal auditors have planned and performed the audit; how significant the findings, the report may fall into disuse unless the audit report is of high professional quality to motivate the readers to take corrective measures concerning the deficiencies cited. In addition, since auditors use the audit reports for a preliminary review in subsequent audits, improved quality of the report will have a positive contribution to the quality of subsequent audits. It is good to allow for flexibility of preparing audit report.

Fieldwork and quality review

Fieldwork involves performing the task identified in the audit programs to collect evidence for assessment of the auditee's current operation considering audit criteria. The fieldwork should be recorded in audit working papers in a consistent and standardised manner. The IIA (2009) also requires the internal auditors to develop and document work program that achieve the engagement objectives and the information must be sufficient, reliable and useful to achieve engagement objectives. The IIA interpreted sufficient information as being factual, adequate and convincing so that a prudent, informed person would reach the same conclusions as the auditor. Reliable information is the best attainable information through the use of appropriate engagement techniques.

Scope of service

This covers the areas of operation by internal auditors in an organisation. This is normally defined in the internal audit charter. The

independence of internal auditors will be impaired if the management defines the scope of audit work for them. To improve the quality of internal audit, the scope of service should be defined by the internal audit mandate such as internal audit charter. The IIA(2009), provides that, the scope of service must be sufficient to satisfy the objectives of the engagement and if internal auditors develop reservations about the scope during the engagement, these reservations must be discussed.

The internal audit scope of work should include risk management, compliance audit, financial and regulatory audit, safeguarding, prevention and detection of fraud. The most highly performed internal audit activities with the response rate ranges from 68% to 100% include: compliance audit, financial and regulatory audit, checking budget implementation, evaluation of accounting records, protection of assets and fraud detection (Belay, 2007). However, the audit areas that internal auditors would pay attention to depend on the objectives of the organisation and the potential risk that would hinder the achievement of the objectives. The scope of internal audit work should include audit activities that would enhance good governance.

This charter discussed the history and evolution of internal audit, internal control and internal audit, external audit and internal audit and conceptual framework which includes: Presence of Audit committee, Organisational Settings, Approved audit mandate and standards, Management support and Internal audit quality as some of the factors that ensure the effectiveness of internal audit function in the public sector.

CHAPTER THREE

METHODOLOGY

Introduction

This chapter discusses the population of the study, the sample and sampling procedure, data collection instruments, pre-testing of questionnaire and the analysis of the questionnaire.

Research design

The purpose of the study is to investigate into the effectiveness of internal audit units in the public sector in Ghana to promote good corporate governance. This involved examining the elements of good corporate governance, the role of internal audit unit in risk management and corporate governance system and determinants of the effectiveness of internal audit function. This study was, therefore, structured within the framework of descriptive research approach. Descriptive research studies are designed to obtain information, which concerns the current status of phenomenon (Saunders, Lewis & Thornhill, 2007). The approach was chosen because the researcher would not manipulate the variable but to describe the phenomenon that existed at the time of the research. The use of descriptive research will enable the researcher to bring to light the factors that contribute to the effectiveness of internal audit and the extent to which these factors can affect the work of internal auditors in the public sector.

However, the descriptive research falls short of discovering new insights into a phenomenon, because it does not manipulate the variables concern and it only focused on explaining what has already happened. The method may also produce untrustworthy results because it may delve into private and emotional matters that respondents may not be completely truthful about. In spite of these disadvantages, the descriptive research design is considered the most appropriate for investigating into the effectiveness of the internal audit units to promote good corporate governance. This is because the effectiveness of internal audit unit will depend on the contribution of the stakeholders involved such as management, internal auditors, external auditors, government and other professional and regulatory bodies.

Population of the study

The population of the study comprised all the internal auditors, finance officers and branch heads of Ghana Audit Service in the Northern region. The structure of this population enabled the researcher to collect objective and detailed information from different groups of people who are responsible for ensuring the effectiveness of the internal audit unit in promoting good corporate governance. The finance officers were chosen because they deal with the financial affairs of the assemblies. The branch heads of Ghana Audit Service review the work of internal auditors as part of their audit work and they will be in the position to provide information on the effectiveness of the internal audit units. The total number of the targeted population was estimated at 68 (which constituted 38 internal auditors, 20 finance officers and 10 branch heads of Audit service department).

Sample and sampling procedure

Three categories, comprising 32 internal auditors, 14 finance officers and all the 10 branch heads of Ghana Audit Service in the Northern region of Ghana, given the total number of 56 respondents constituted the sample size. According to Saunders, Lewis & Thornhill (2007), to allow a margin of error of 5% out of the total population of 50 cases, the sample size of 44 is deemed appropriate. To this end, the researcher believes that the sample size of 56 cases which represents 82.4% of the population is appropriate. The researcher employed simple random sampling to select internal auditors and used census for the branch heads of Ghana Audit Service. The finance officers from the respective assemblies of the internal auditors who were selected were given questionnaires. The list of all internal auditors in the Metropolitan, Municipal and District Assemblies in the Northern region was obtained from the training officer of Internal Audit Agency, Accra. The names of the internal auditors were written on pieces of papers and then folded and mixed in a container. The researcher then picked one folded paper at a time randomly without looking through the container and recorded it until the required number of the internal auditors was obtained. The selection was done without replacement.

The researcher identified the respective assemblies where the selected internal auditors work and then visited those assemblies to administer the questionnaires to the internal auditors and the Finance officers. The selected Assemblies include; Tamale Metropolitan, Yendi Municipal, East Gonja, Bole-Bamboi, East Mamprusi, West Gonja, Zabzugu/Tatale, Tolon/Kumbungu, Nanumba North, Gushegu, West Mamprusi, Savelgu

Nanton, Saboba and Central Gonja. With respect to branch heads of Ghana Audit Service, the researcher selected all the 10 branch heads in the region.

Out of the 32 questionnaires issued to the internal auditors, 29 questionnaires were received representing 96.7% and that of the finance officers, only 1 questionnaire was received out of 14 questionnaires issued representing 7.1%. With regard to the branch heads of audit service, 9 questionnaires were retrieved out of 10 questionnaires issued representing 90%. In all, 38 questionnaires were retrieved. The response rate is 69.6%

Data collection instruments

Two research instruments were deployed to collect data from the respondents. These are questionnaire and structured interviews. (See appendix B ,C, D and E) Together, they provided a rich source of detailed information and ensured validation of the findings.

Questionnaire

In this study, self-administered questionnaires were used to explore the effectiveness of internal audit in promoting good corporate governance. The study used questionnaire developed by Belay (2007). It has been revised to take into considerations the internal audit professional standards on the effectiveness of internal audit provided by Institute of Internal Auditors (2009). Three different sets of questionnaires were constructed to collect data from internal auditors, branch heads of Ghana Audit Service and finance officers. The questionnaires were made up of closed-ended items (where respondents were offered options from which they were to select those items

that they deemed appropriate) and open-ended questions (those that participants provided their own responses). Each questionnaire was made up of four parts. The first part sought information about the personal background of the respondents. The second part was to collect information on the elements of good corporate governance in the public sector. The third part focused on the effectiveness of internal audit in promoting good corporate governance. The fourth part concentrated on the challenges and recommendations.

Interviews

The interview was designed for only chief internal auditors in the assemblies and it was structured in-line with the questionnaire items. The aim of this interview was to cross check the responses of the internal auditors and to also collect in-depth data that was not possible with a questionnaire. The researcher also used this opportunity to collect secondary data such as annual audit programme, annual audit reports and internal audit charter. Interview guide has a number of advantages and disadvantages. When well conducted, it can produce in-depth data. Another advantage is that it is more flexible; hence the researcher was able to adapt it to suit each respondent. The interview may also result in more accurate and honest responses, more especially when the interviewer establishes good rapport and a trust relationship with the interviewee. Further more, the interviewer can follow up on incomplete or unclear responses by asking probing questions. On the other hand, the interview guide is time consuming and expensive. Also, it requires a great deal of communication and research skills to be able to solicit relevant information.

Pre-testing of questionnaire and training of field assistants

The questionnaire was pre-tested in Cape Coast Metropolitan, Takoradi Metropolitan, Komenda Edina Eguafo Abirem Municipal, Mfantseman , Abura Asebu Kwamankese, and Assin North Assemblies. Sheets were added to the questionnaires for the respondents to provide their comments and suggestions regarding clarity, weakness, ambiguities and problems of the instruments.

The comments and suggestions were carefully analysed and the questionnaire was then revised to take care of those comments and suggestions. For example question like, do you think corporate governance is important in the assemblies was refined to why corporate governance is important in the assemblies. Some of the ‘Yes’ and ‘No’ questions were reframed to either elicit more information from the respondents or give the respondents more options to choose from. Initially, Coordinating Directors were part of the population instead of finance officers but the pre-testing revealed that the Coordinating Directors did not understand some of the auditing concepts. The researcher therefore took Coordinating Directors out and included finance officers in the population. During this pre-testing, field assistants were trained to help the researcher to collect data. This became necessary because of the vast nature of the region.

Test of reliability

A reliability test was carried out on the collected data using the Alpha Cronbach model, to explore its internal consistency of the questionnaire, based on the average inter-item correlation. Table 2 provides the result of the reliability test.

Table 2. Test of reliability

| Items | Number of items | Cronbach's Alpha |
|---|----------------------------|-----------------------------|
| Elements of good corporate governance | 5 | 0.79 |
| Organisational settings | 8 | 0.75 |
| Determinants of the effectiveness of internal audit | 14 | 0.88 |

The result of the reliability test in table 2 shows average Cronbach's Alpha of 0.88. This indicates that the questionnaires designed were highly reliable, and the collected data were also highly reliable and consistent.

Data collection procedure

The researcher, with the help of field assistants, visited the selected assemblies to distribute the questionnaires to the respondents and allowed a period of one week for collection. The researcher obtained an introduction letter from the Head of Accounting and Finance Department, School of Business, University of Cape Coast as way of formal introduction of the researcher to the respondents and this made it possible for the researcher to collect data from the assemblies. The whole data collection took a period of three weeks.

Data processing and analysis

Raw data can only be meaningful when it is processed into information for the purpose of making analysis. To this end, immediately after field survey, data obtained were first edited to ensure consistency and accuracy in

the responses and to check the response rate. The data were later coded and the Statistical Product for Service Solution (SPSS) was used to do the analysis.

CHAPTER FOUR

DATA PRESENTATION AND ANALYSIS OF FINDINGS

Introduction

This chapter is devoted to the presentation of data and analysis of the responses made by participants under study. Wherever applicable, tables and figures are provided to illustrate and support the findings. In the analysis of the data vis-à-vis the research questions raised, frequency and percentage tables based on the likert type of scale responses of respondents were constructed. Also mean and standard deviation were used to analyse some items of the questionnaires. The analysis was done based on the research questions.

Basic characteristics of respondents

The study was conducted in Fourteen (14) assemblies in the Northern region.

Table 3: Sex distribution of respondents

| Sex | Internal auditors | | Heads of Audit Service | | Total | |
|--------|-------------------|------|------------------------|------|-------|------|
| | No. | % | No. | % | No. | % |
| Male | 22 | 75.9 | 8 | 88.9 | 30 | 78.9 |
| Female | 7 | 24.1 | 1 | 11.1 | 8 | 21.1 |
| Total | 29 | 100 | 9 | 100 | 38 | 100 |

From Table 3, it is observed that 78.9% of the respondents are males and 21.1% of them are females.

Table 4: Age Distribution of internal auditors

| Age | Number | Percentage (%) |
|--------------|-----------|----------------|
| 20 – 25 | 1 | 3.5 |
| 26 – 30 | 15 | 51.7 |
| 31 – 36 | 9 | 31.0 |
| 36 + | 4 | 13.8 |
| Total | 29 | 100.0 |

It can be deduced from table 4 that, majority (15) representing 51.7% of the internal auditors were between 26 to 30 , 9 (31.0%) of them were between 31 to 36 years and those above 36 years were 4 representing 13.8% of the internal auditors.

Table 5: Academic qualification of internal auditors

| Qualification | Number | Percentage (%) |
|---------------|-----------|----------------|
| Degree | 11 | 37.9 |
| Diploma | 16 | 55.2 |
| Others | 2 | 6.9 |
| Total | 29 | 100.0 |

With regard to qualification, more than half (55.2%) of Internal auditors had Diploma, 11 of the internal auditors, representing 37.9% were degree holders and only 2 representing 6.9 % of them had other qualifications which include Advanced Business certificate and A-level.

Elements of good corporate governance

The researcher wanted to know why corporate governance is important in the Assemblies. The respondents expressed that corporate governance is necessary to enable the assemblies to achieve their objectives of becoming a highly professional socio-economic services providers to their people. Others also stated that corporate governance would ensure effective and efficient utilisation of resources. Effective corporate governance reduces the incidence of corruption and builds confidence citizens have in public officials.

The respondents were also asked what elements ensure good corporate governance in the public sector. The questions on the elements of good corporate governance were closed type and the respondents were required to respond to these questions using 5-point rated likert scale. The scale indicates the level of importance of each element, from very important (5) to very Unimportant (1). To answer this question, responses to item 7 of both internal auditors and branch heads of Ghana Audit Service were used. Their responses are summarised in figure 1 below.

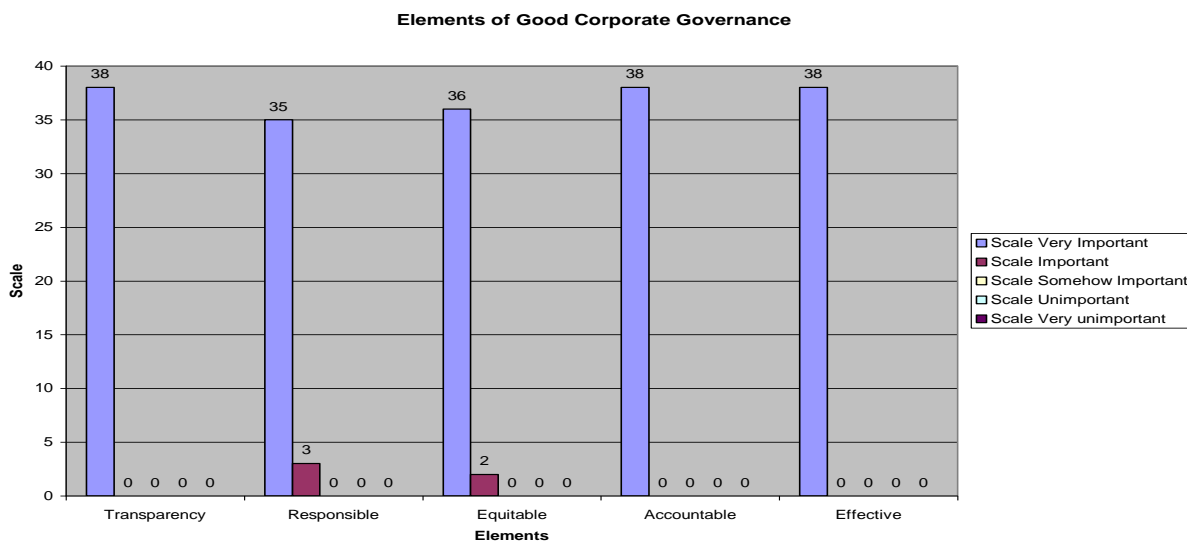


Figure 1: Elements of Good Corporate Governance

Key words:

Transparency = Transparency at all levels of government

Responsible = Responsible to people

Equitable = Equitable treatment of people

Accountable = Accountable to people

Effective = Effective, Efficient and Economical use of resources

Statistical evidence from figure 1 reveals that all the 38 respondents representing 100% indicated transparency at all levels of government, accountable to people and effective and efficient use of resources are very important in ensuring good corporate governance system in the public sector. Also, 35 of them representing 92.1% stated that responsible to people is very important in ensuring good corporate governance and the remainder (3) representing 7.9 % expressed it as important element of corporate governance. With regard to efficient and effective use of resources, 36 of the respondents representing 94.7% expressed it as very important while 2(5.3%) of them indicated it as important. Most (30) of the respondents representing 78.9 expressed that making information accessible to the citizens would also

enhance corporate governance practice in the public sector. This result is in line with the findings of Belay (2007) except making information accessible to citizens which was not discovered by the previous research. This particular element would reinforce the other elements and keep the citizens informed about government objectives, policies and programmes

This evidence suggests that for any good corporate governance system to succeed, transparency at all levels of government; equitable treatment of citizens; responsible to people; accountable to people; effective and efficient use of resources and availability of information are the fundamental values that should be integral part of the governance system. Deficiency of any of these values will create problems for government in achieving its objectives.

Internal control activities

Internal control systems are fundamental to the success and survival of organisations and it forms integral part of corporate governance system in the public sector. The contribution of internal auditors in promoting good corporate governance is based on the scope of their work. In the light of this, internal auditors were presented with 5-point rated likert type of scale items to provide their responses regarding the activities they perform in the Assemblies. The research question two was answered using the item 16 of the questionnaire for internal auditors. The responses are indicated in table 6 below.

Table 6: Internal Control activities

| Internal control activities | Always Done | | Often Done | | Occasionally Done | | Rarely Done | | Total | |
|--|-------------|------|------------|------|-------------------|------|-------------|------|-------|-----|
| | No. | % | No. | % | No. | % | No. | % | No. | % |
| 1.Compliance with laws and regulation | 21 | 72.4 | 8 | 27.7 | 0 | 0 | 0 | 0 | 29 | 100 |
| 2.Checking budget implementation | 3 | 10.3 | 2 | 6.9 | 24 | 82.8 | 0 | 0 | 29 | 100 |
| 3.Evaluation of accounting errors and fraud detection | 22 | 75.9 | 2 | 6.9 | 5 | 17.2 | 0 | 0 | 29 | 100 |
| 4.Evaluating management’s effort to the recovery of receivable, taxes and other collectables | 5 | 17.2 | 0 | 0 | 6 | 20.7 | 18 | 65 | 29 | 100 |
| 5. Assessing reliability and soundness of financial information | 20 | 69 | 9 | 31 | 0 | 0 | 0 | 0 | 29 | 100 |
| 6. Examine and assess the policies, procedures and manuals and recommend best practices | 10 | 34.5 | 2 | 6.9 | 17 | 58.6 | 0 | 0 | 29 | 100 |
| 7.Examine the use of assembly resources and safeguard of assets | 26 | 89.7 | 3 | 10.3 | 0 | 0 | | | 29 | 100 |
| 8.Examine productivity | 1 | 3.4 | 0 | 0 | 3 | 10.3 | 25 | 86.2 | 29 | 100 |
| 9. Assessing unethical behaviour of management and recommending best practices | 23 | 79.3 | 6 | 20.7 | 0 | 0 | 0 | 0 | 29 | 100 |
| 10.Test the organisation’s conformity with objective requirement standard | 10 | 34.5 | 8 | 27.6 | 11 | 37.9 | 0 | 0 | 29 | 100 |
| 11. Model control environment (risk management system and controls) | 2 | 6.9 | 3 | 10.3 | 1 | 3.4 | 23 | 79.3 | 29 | 100 |
| 12. Evaluate projects/programs accomplishment (effectiveness) | 3 | 10.3 | 4 | 13.8 | 2 | 6.8 | 20 | 69 | 29 | 100 |

As per the response result in table 6, it is noted that the internal auditors always perform internal control activities such as compliance with laws and regulation (72.4%), Assessing reliability and soundness of financial information (69%), assessing unethical behaviour of management and recommending best practices (79.3%), evaluating accounting errors and fraud detection (75.9%) and Examine use of assembly resources and safeguard of assets (89.7%). They occasionally perform checking budget implementation (82.8%), examine and assess the policies, procedures and manuals and recommend best practices (58.6%). It is also evident that the internal auditors rarely perform evaluating management's effort to the recovery of receivable, taxes and other collectables (65.5%); examine productivity (86.2%); Model control environment (risk management system and controls) (79.3%) and evaluate projects/programs accomplishment (Effectiveness) (69%).

The above statistical evidence clearly indicate that, the internal audit units in the assemblies focus mainly on the traditional paradigm of internal audit functions which includes compliance with laws and regulations, evaluating accounting errors and fraud detection rather than addressing risk management and productivity. In order to obtain more evidence regarding the internal control activities performed by the internal auditors, the researcher examined their audit programs and plans and there was little concentration on the risk management and the broad goals of the Assemblies. This implies that the corporate governance system in the assemblies is in danger.

Factors that hinder the effectiveness of the internal audit

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 sector 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 heads of Ghana Audit Service in respect of these areas in order to answer research question three (3).

Management support

As per the professional standards of Institute of Internal Auditors, management support 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 management support to internal auditors in the assemblies.

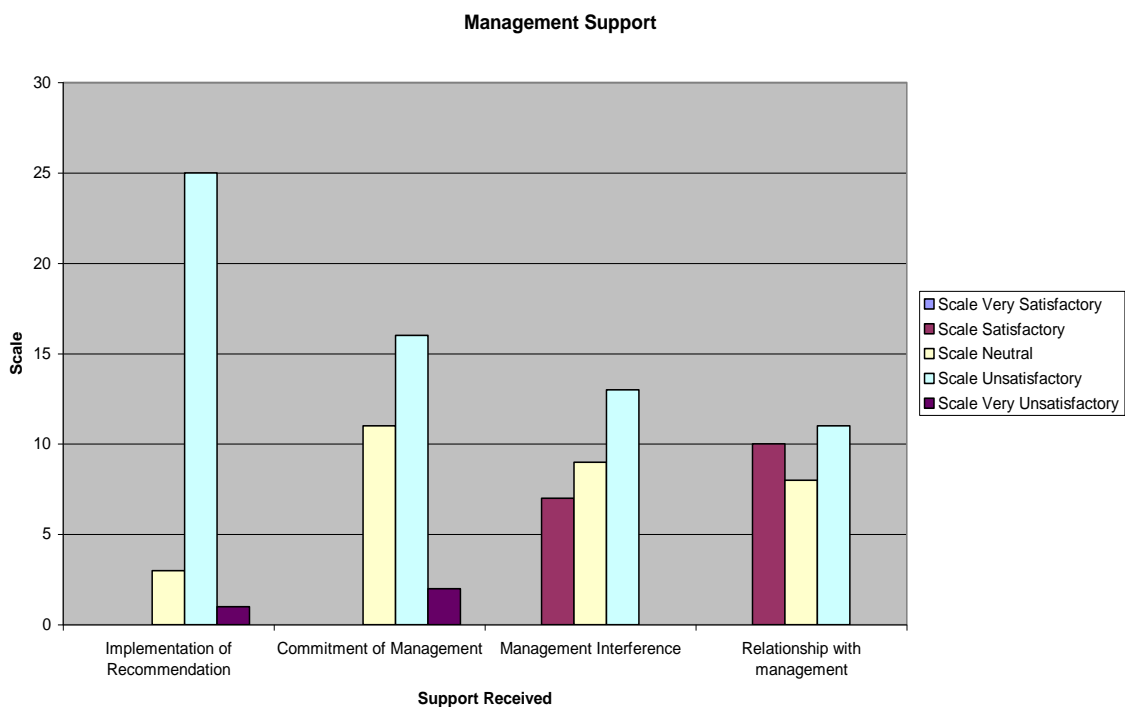


Figure 2: Management Support

From the responses in figure 2, it is found that management support to the internal audit units is not good enough as 25 (86.2%) of the respondents expressed unsatisfactory about the implementation of internal audit recommendations by management, none expressed very satisfactory and satisfactory about it and 3 representing 10.3% were neutral on the issue. On commitment of management in supporting budgetary status of the internal audit units, 16 representing 55.2% of the respondents stated unsatisfactory, 11 representing 37.9% indicated neutral and 2 representing 6.9% expressed very unsatisfactory. Management sometimes interferes with the work of the internal auditors as 13 representing 44.8% indicated unsatisfactory about management interference.

The above evidence suggests that the internal audit units receive less management support in the Assemblies. This result corroborates the findings of Mihret, (2007) who discovered that internal audit units in the public sector received less management support. 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.

Existence of Audit Committees

The researcher wanted to find out whether the assemblies have audit committees. The result is presented in figure 3.

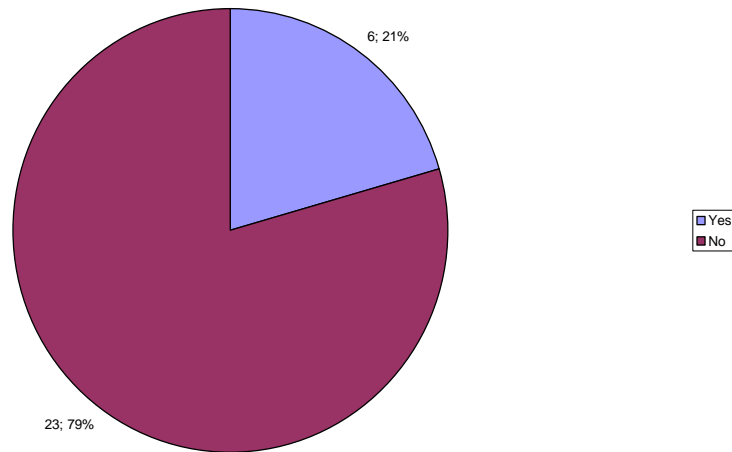


Figure 3 Existence of Audit Committees

From figure 3, 79% of the respondents said the assemblies do not have audit committees. An interview with the chief internal auditors revealed that, the assemblies where the audit committees even exist, they are not functioning well. The respondents believe that it is necessary to have audit committee so that the independence of the internal audit unit could be enhanced. They also believe that audit committee would support internal auditors by ensuring that their recommendations are implemented.

Organisational Settings

This area examined the status of the internal audit units in the assemblies, policies and procedures of the assemblies concerning internal audit units, budgetary status, location of the units and the reporting relationship. The items were presented in the form of likert-type of scale and respondents were required to express the extent to which they agree or disagree with the items. The findings are presented in table 4.5 below.

Table 7. Organisational settings

| Statements | Strongly Agree | | Agree | | Disagree | | Strongly Disagree | | Neutral | | Mean |
|---|--|------|-------|------|----------|------|-------------------|------|---------|-----|--------|
| | No | % | No | % | No | % | No | % | No | % | |
| | 1. Internal audit unit is given low status | 2 | 6.9 | 16 | 55.2 | 9 | 31 | 2 | 6.9 | 0 | |
| 2. There is inadequate budget allocation for internal audit unit | 17 | 58.6 | 8 | 27.6 | 4 | 13.8 | 0 | 0 | 0 | 0 | 4.4483 |
| 3. MMDAs policies and procedures are not clearly defined for internal auditors | 16 | 55.2 | 7 | 21.4 | 3 | 10.3 | 1 | 3.4 | 2 | 6.9 | 4.1724 |
| 4. Management view internal auditors as fault finders | 19 | 65.5 | 5 | 17.2 | 5 | 17.2 | 0 | 0 | 0 | 0 | 4.4828 |
| 5. No regular training for internal auditors | 7 | 21.4 | 16 | 52.6 | 4 | 13.8 | 2 | 6.9 | 0 | 0 | 3.9655 |
| 6. No representation on board Meetings | 7 | 21.4 | 9 | 31.0 | 10 | 34.5 | 2 | 6.9 | 1 | 3.4 | 3.6552 |
| 7. The internal audit unit is not allowed to choose any transaction of interest | 3 | 10.3 | 7 | 21.4 | 16 | 55.2 | 2 | 6.9 | 1 | 3.4 | 3.3103 |
| 8. The unit is not allowed pre transaction audit | 0 | 0 | 6 | 20.7 | 18 | 62.1 | 5 | 17.2 | 0 | 0 | 2.9655 |

Statistical evidence from table 7 showed that the internal audit units experienced inadequate budget allocation (4.4483), the Metropolitan, Municipal and District Assemblies did not have clear policies and procedures for internal audit units (4.1724), management also perceived internal auditors as fault-finders rather than adding value to promote good corporate governance (4.4828). The respondents also agreed that there is no regular in-service training for them (3.9655). With regard to board representation, the respondents expressed that they are not given representation in board meetings on key issues of the assemblies. However, it seems that the internal auditors are allowed pre-transaction audit (3.3103) and free to choose any transaction of their choice (2.9655). From this statistical evidence, one can say that the organisational settings in the assemblies are restricting the role of the internal audit units in promoting good corporate governance.

On the issue of reporting relationship, the internal auditors report direct to the Coordinating Director who is the administrative head of all government departments and agencies in the assembly. This reporting relationship does not enhance the independence of the internal auditors. The researcher also wanted to find out whether the internal auditors are allowed access to all records, information, employees and other audit evidences. The responses from the respondents revealed that the internal auditors are partially allowed access to audit evidences (69%). This evidence collaborate the findings of Belay, (2007) who discovered that the internal audit units in the public sector in Ethiopia were partially allowed access to records. Full access to all audit evidence makes

internal auditors to provide complete and reliable audit reports and as per this result, one can say that the internal auditors are being manipulated and their audit reports may not be reliable.

To enhance the independence of the internal auditors, they need not to engage themselves in other activities that would create conflict of interest. To this end, the researcher wanted to find out whether the internal auditors are given other non related audit roles. It reveals that 10 of the respondents representing 34.5% indicated that they do other work such as preparation of budget and 19 of them representing 65.5% stated that they are not given other roles to play. The internal auditors can not audit any transaction that they were previously involved because there will be conflict of interest. Therefore, internal auditors can engage in budget preparation but not budget implementation.

The internal audit units of the assemblies are strategically positioned as all the units are located within the same block with the finance office. The internal audit units that are outside the administration of an institution or organisation are no more internal audit units. The units should be within the administration so that they can keep track of daily activities of the organisations.

As to whether the units have adequate resources including utilisation and availability of appropriate technology, 12 of the respondents representing 41.4% strongly agreed that they have no adequate resources including appropriate technology and 17 of them representing 58.6% also agreed that the resources available are not adequate. In this technological era, internal auditors need to be

familiar with appropriate technologies to employ in auditing. This would ensure accurate, reliable and timely audit reports.

Internal audit quality

The quality of internal audit is one of the determinants of the effectiveness of the internal audit in promoting corporate governance identified in the literature review. The internal audit quality demonstrates the capability of the unit to provide useful audit findings and recommendations. This covers the expertise, strength and experience of the internal audit staff; reasonableness of the scope of service and effective planning, and execution and communication of internal audits. To assess the internal audit quality, questionnaire and an interview were used to obtain evidence. Other documents such as audit plan, audit report and engagement letter were also reviewed to support the evidence.

Expertise, strength and experience of internal audit staff

Evidence from the study showed that each assembly has an average of two (2) internal audit staff and 65% of the respondents expressed that the number is adequate while 35% of them stated the number is inadequate. Most (16) representing 55.2% of the respondents have Diploma, 11 representing 37.9% of them have degree and 2 representing 6.9% have other qualifications. However, none of them is a qualified accountant. With regard to experience, 95% of the internal auditors have only one year working experience. The heads of Ghana Audit Service in the region rated the experience and expertise of the internal

auditors as below average and average respectively. Short-term courses and in-service training are necessary to upgrade the competences of the internal auditors. However, the assemblies are not doing much in this regard. The professional qualities that the internal auditors should possess include competencies, objectivity, and professionalism, independent attitude of mind, good judgement, integrity and confidentiality.

Scope of service

The questionnaire responses and a review of audit reports reveal that the internal auditors concentrated on compliance of law and regulations; assessing reliability and soundness of financial information; evaluating of accounting errors and fraud detection. However, the internal auditors pay less attention to risk management, evaluation of project and productivity. This could be due to lack of experience and expertise to cover these areas.

Audit plan

The internal audit units in the assemblies have 3-year strategic plan and this is executed on the basis of annual plan. Even though, the units have annual plan, most of their audit activities are determined by Coordinating directors. This evidence suggests that the units do not work according to their plan.

Audit communication

The internal audit units prepare comprehensive and concise annual auditor reports. However, 75% of the internal auditors stated that they do not meet the timeframe within which to submit their reports. The reasons they gave are;

inadequate resources including appropriate technology, delay in having access to audit evidences and late in receiving audit assignment from Coordinating Directors. The units do not also have formal follow-up procedure to ensure whether corrective actions are taken as per the recommendations. Though it is the responsibility of the management to bear the risk for not implementing the recommendations, the internal auditors have the responsibility to do a follow-up to find out if management value their services.

Existence of Approved internal audit charter, standards and mandate

The documents that the internal auditors draw their powers, functions, mandate and administrative lines include Internal Audit Agency Act, 2003 (Act 658) Ghana Audit Service Act, 2000 (Act 584), Financial Administration Act, 2003 (Act 654), Public Procurement Act, 2003 (Act 663), Internal Audit Charter and Internal Audit Manual. However, 80% of the assemblies do not have Internal Audit Charter and the internal auditors relied on Internal Audit Agency Act. This Act defined the responsibilities and duties of the internal auditors and failed to define the scope of internal work and powers of internal auditors. The internal audit charter binds management to allow internal auditors to execute their work without any restrictions and implement internal audit recommendations. The absence of this reduces the effectiveness of the internal audit unit to provide quality audit work. The internal auditors and branch heads of Ghana Audit Service all strongly agreed that without internal audit charter, the internal auditors can not operate effectively. The absence of the Internal Audit Charter allowed

management to define the scope of work for internal auditors. This would limit the work of internal auditors and impair their independence.

Advisory roles do internal auditors play in the assemblies

The modern internal audit function goes beyond mere verification of records to include consulting activities and advisory roles. The research question four aimed at finding out the kind of advisory roles the internal auditors play in the Assemblies. The result is presented in figure 4 below.

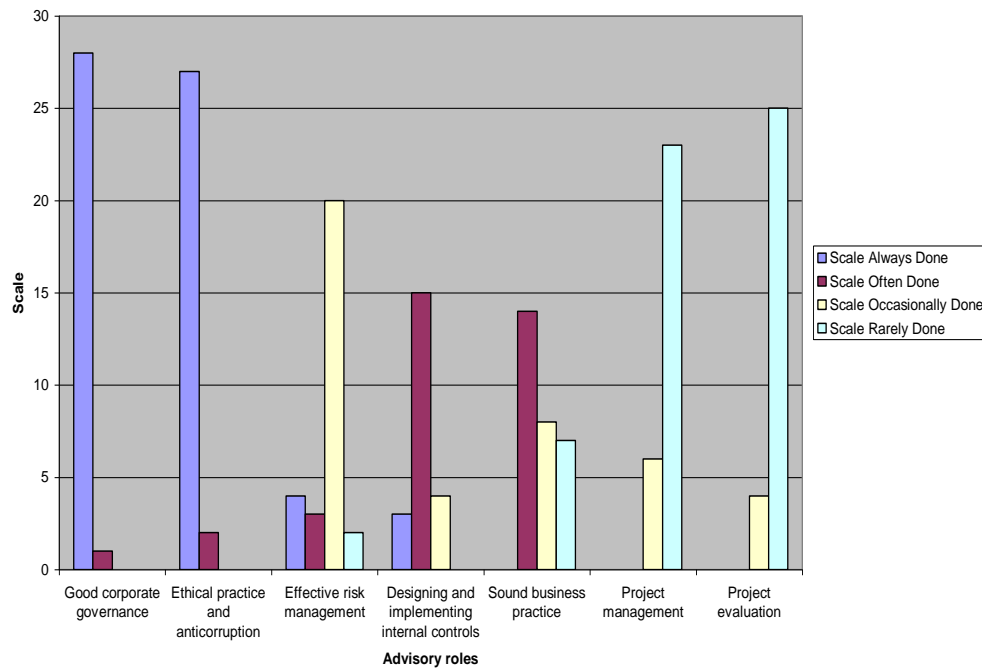


Figure 4 Advisory roles of internal auditors

From figure 4, the statistical evidence showed that the internal auditors play advisory roles in the assemblies. The internal auditors always advise management on good corporate governance systems (96.6%), Ethical practice and anticorruption (93.3). They occasionally advise management on effective risk management (69.0%) and often advise management on designing and

implementing internal control systems (51.2%) and sound business practice (48.3%). However, they rarely advise management on project management (79.3%) and programme evaluation (86.2%). From the above analysis, one can say that the internal audit units in the assemblies are meeting the modern definition of internal audit by IIA, 2009 as consulting activity and adding value to an organisation. These advisory services are necessary to ensure good corporate governance in the public sector. It is important to add that the internal audit units may have good advisory services to offer, but the benefits of it may depend on the quality of the service and how relevant is it to the assemblies. The expertise and the experience of the internal auditors would determine the quality of advisory services they can offer.

Determinants of effective internal audit

The researcher wanted to find out from the internal auditors and the branch heads of Ghana Audit Service to what extent do they agree or disagree with the following factors that enhance the work of internal auditors. The factors were presented in a five-point likert-type of scale and the respondents were required to provide their responses using strongly agree (5) to Undecided (1). The findings are summarised in table 8 below.

Table 8. Determinants of the effectiveness of internal audit

| Determinants | N | Mean | Std. Deviation | Std. Error Mean |
|--|----------|-------------|-----------------------|------------------------|
| Existence of audit committee makes internal audit effective | 38 | 4.9655 | .18570 | .03448 |
| Competencies and experience of internal auditors makes internal audit effective | 38 | 5.0000 | .0000(a) | .00000 |
| Approved internal audit standards, Act or charter makes internal audit effective | 38 | 4.9655 | .18570 | .03448 |
| management support makes internal audit effective | 38 | 4.8966 | .30993 | .05755 |
| Organisational independence makes internal audit effective | 38 | 4.9310 | .25788 | .04789 |
| Implementations of recommendations makes internal audit effective | 38 | 4.9310 | .25788 | .04789 |
| Adequate resources makes internal audit effective | 38 | 4.7586 | .43549 | .08087 |
| Unrestricted access to records makes internal audit effective | 38 | 4.6552 | .48373 | .08983 |
| Quality leadership of chief internal auditors makes internal audit effective | 38 | 4.7931 | .41225 | .07655 |
| Rotations of internal audit staff makes internal audit effective | 38 | 4.1379 | .44111 | .08191 |
| Job satisfaction makes internal audit effective | 38 | 4.2069 | .41225 | .07655 |
| Regular training makes internal audit effective | 38 | 4.7241 | .45486 | .08447 |
| Opportunity to take part in decision making makes internal audit effective | 38 | 4.3793 | 1.01467 | .18842 |
| Opportunity to seek for outside expertise makes internal audit effective | 38 | 3.7931 | .77364 | .14366 |

Scale: mean of 4.6 to 5 is Strongly agreed, 4.0 to 4.5 is Agreed, 3.5 to 3.9

is Disagreed, 2.9 to 3.4 is Strongly disagreed and mean below 2.9 is Undecided.

From table 8, the respondents strongly agreed that the existence of audit committees (4.9655), Competencies and experience of internal audit (5.000), Approved internal audit standards, Act or charter (4.9655), Organisational independence (4.9310), Management support (4.8966), Implementation of audit recommendations (4.9310), Adequate resources (4.7586), Unrestricted access to records (4.6552), Quality leadership of chief internal auditors (4.7931) and Regular training of internal audit staffs (4.7241) make the internal audit units effective. The respondent also agreed that Rotations of internal audit staffs (4.1379), Job satisfaction (4.2069) and Opportunity to take part in the decision making (4.3793) could make internal auditors effective. They disagreed with the opportunity to seek for outside expertise (3.7931). This result is in line with the findings of Belay (2007) who conducted a similar research in Ethiopia. The evidence from the research revealed that the existence of audit committee, expertise and competencies of internal auditors, management support, existence of approved internal audit standards, full access to all audit evidences and organisational independence are factors that make internal audit effective. This study, however, identified additional factors such as rotation of internal auditors, opportunity to take part in the decision making process, opportunity to seek for outside expertise and job satisfaction.

As per this result, the most important factor among all the factors is expertise and competencies of internal auditors. This may be due to the fact that a competent and experienced internal audit staff can not be manipulated easily by management and would have the ability to interpret and apply audit standards.

Reliance on internal auditors by external auditors

The researcher wanted to know the extent to which the branch heads of Ghana Audit Service rely on the internal auditors in the assemblies. All the branch heads of Ghana Audit Service indicated that they rarely rely on the internal auditors. They explained that the internal auditors do not have necessary expertise and experience. The branch heads also stated that the internal audit units are not adequately resourced. The internal auditors on their part indicated that the branch heads of Ghana Audit do not have confidence in them and they rarely rely on them. It can be deduced that, there is no collaboration between internal auditors and external auditors in the assemblies. In this regard, there would not be any effective auditing since internal auditors and external auditors complement each other in ensuring good corporate governance.

CHAPTER FIVE
SUMMARY OF FINDINGS, CONCLUSIONS AND
RECOMMENDATIONS

Introduction

This chapter presents a summary of the findings of the study. The conclusions to the main issues of the study and recommendations are also established.

The purpose of this study was to examine the effectiveness of the internal audit in the public sector in promoting good corporate governance in Ghana. In recent times, there has been an increased interest in the internal audit function in the public sector to enhance corporate governance. The public demand accountability and transparency from government and the government can protect itself by improving the internal audit unit procedures that will provide some level of assurance that government is not wasting public resources. The recent economic melt-down further called for improving internal audit units. In response to this crisis, the IIA has issued auditing standards to guide the auditing and accounting profession in the public sector and countries are expected to develop their own public auditing standards by considering the local environment and keeping it consistent with the internal perspective. To this end, Ghana established internal audit units in the Ministries, Departments and Agencies and the

Metropolitan, Municipal and District Assemblies in 2003 to ensure transparency, accountability, equity and effective use of public resources. However, Ghana does not have its own internal auditing standards. The internal auditors are guided by Internal Audit Agency Act and Ghana Audit Service act.

This study was carried out in the Metropolitan, Municipal and District Assemblies in the northern region of Ghana. The data were collected through the use of questionnaire and interviews. The study was descriptive survey. Four research questions were developed to guide the study. All the four questions were analysed using percentages and means.

The study revealed that:

1. Transparency at all levels of government, accountability to the public, equitable distributions of resources and inclusive policy, responsible to people and effective, efficient and economical use of resources are elements of good corporate governance.
2. The internal control activities of the internal audit unit in the assemblies focus mainly on the traditional paradigm of internal audit functions that focuses on compliance with laws and regulations, evaluating accounting errors and fraud rather than addressing risk management and productivity.
3. Management do not give the internal auditors the necessary support. The internal audit recommendations are not implemented and the units lack adequate resources. Management sometimes interfere with the work of internal auditors.

4. Most (79.3%) of the respondents agreed that they do not have audit committee. However, the respondents indicated that audit committee is necessary in the assemblies in order to ensure organisational independence of the internal auditors.
5. In general, the internal auditors do not have experience and they do not also have professional qualification in accounting and auditing field.
6. The assemblies do not have well-defined and clear policies, procedures and programmes for internal audit units
7. The structure and the organisational settings of the assemblies are restricting the roles of the internal auditors in delivering their services. They are partially allowed access to audit evidences and the assemblies do not have clear policies and procedures for internal auditors. Management perceived them as fault-finders and the units are given low status in the assemblies.
8. The internal auditors play advisory roles such as good corporate governance, unethical practices and corruption, designing and implementing internal controls, risk management and sound business practice.
9. The factors identified as ensuring effective internal audit in the public sector are existence of audit committee, expertise and experience of internal auditor, management support, approved internal audit mandate and standards, unrestricted access to records, implementation of audit

recommendations, adequate resources, organisational independence, regular training and quality of leadership of chief internal audit staff.

Conclusion

The evidence from the study indicates that the internal auditors are focusing their activities on compliance with laws and regulations, detections of errors and fraud, assessing unethical behaviour of management and evaluating management's efforts in recovering debts. From this evidence, it can be concluded that the scope of the internal audit activities is limited. Little attention is paid to risk management and project evaluation. Risk management is now the modern trend of internal audit and if internal audit unit does not pay much attention to it, corporate governance system will not be effective.

It was also clear from the findings that the internal auditors receive little support of management and the organisation settings are restricting their work. The internal auditors lack experience and expertise to provide quality work. There is no audit committee and internal audit charter in some assemblies to enhance the independence of the internal auditors. It can be concluded from these evidences that, the units are not effective in ensuring good corporate governance system in the assemblies.

Recommendations

On the basis of the findings, the following recommendations are proposed for the consideration of Internal Audit Agency, management of the assemblies and the internal auditors.

1. Every assembly should establish an audit committee. The audit committee should be made up of experts from different field who are independent from the management of the assemblies. It has been revealed that most of the assemblies do not have audit committee. The existence of audit committee enhances the independences of the internal audit unit because they have no clearly defined relationship with the internal audit staffs and less frequent meetings are held with them as a follow up and control the effectiveness of the internal audit units from the perspective of strengthening governance structure. The current reporting relationship of internal auditors to coordinating directors does not make internal auditors to enjoy some level of independence. For the purpose of enhancing the independence of the internal auditors, they should rather report to audit committee.
2. Each assembly should have its own internal audit charter. The management should involve the internal audit staffs and the audit committee in developing the charter. This would bind management and the internal auditors in executing their respective duties.
3. The internal audit units need to be adequately resourced including the use of appropriate technology. The availability of resources would enable the internal auditors to do quality work within the timeframe.
4. There should be regular in-service training and short term courses for internal auditor. This would help them to upgrade themselves in order to meet challenges of modern internal audit.

5. The internal auditors should be given high status in the assemblies so that they can not be manipulated by management. The chief internal auditors should be placed at a level that is recognised in the assemblies, preferable the level with the fiancé officers and other key influential persons in the assemblies.
6. The internal audit agency should monitor the internal audit units on regularly basis. monitoring would help the agency to know whether the units achieving the desired results. Monitoring includes addressing internal audit findings and recommendations and ensures that the management of the assemblies take corrective actions
7. It is also recommended that the internal auditors should not stay in a particular assembly for more than two years. This is also necessary to enhance their independence.
8. The work of the internal audit units should not be decided by the Coordinating directors. The unit should be autonomous to decide what auditing activities to carry out. When Coordinating directors define the work of internal audit, the scope of the unit would be limited and the independence of the auditors would be at risk.

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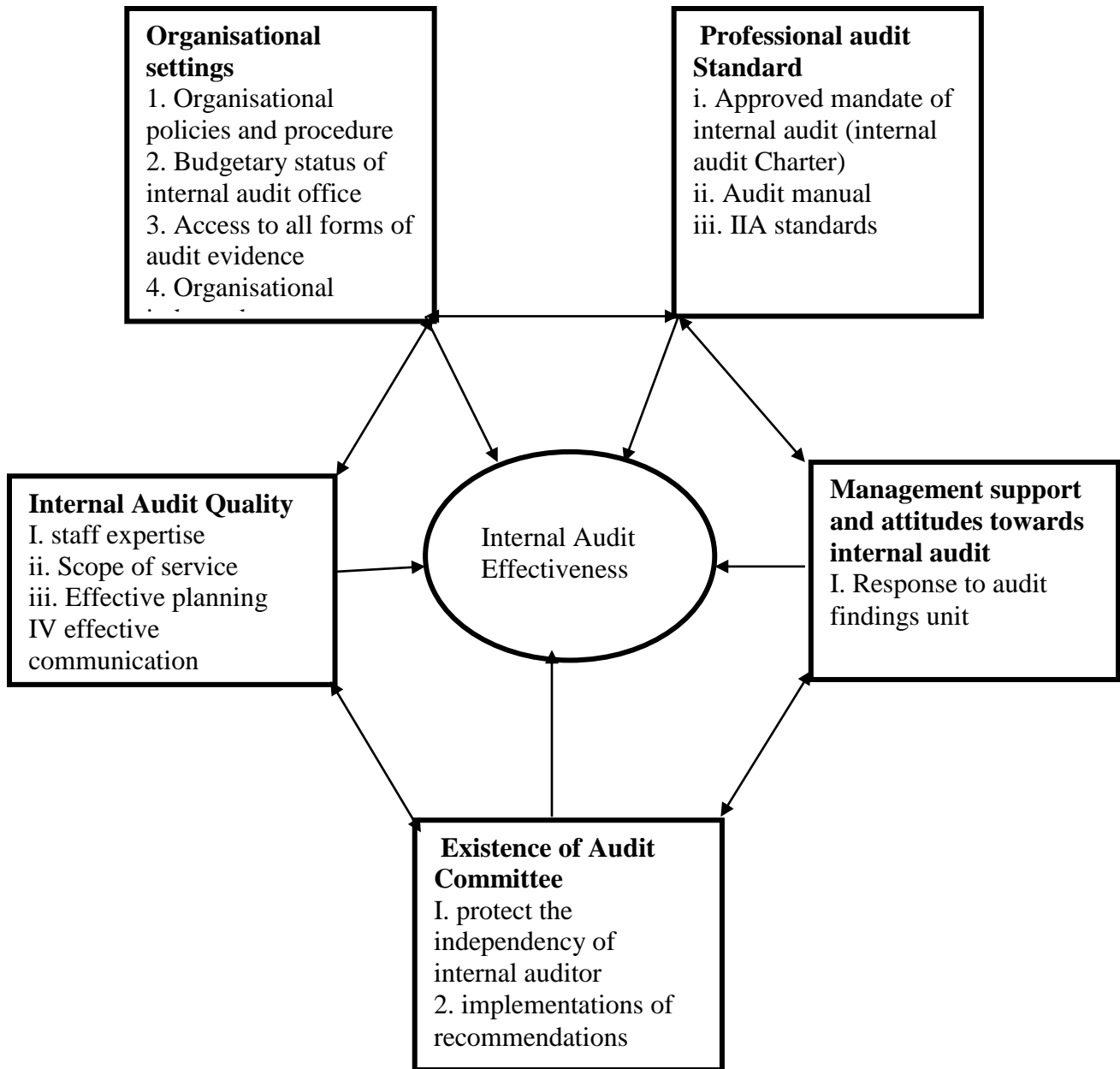
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APPENDIX A

Conceptual Framework: Determinants of the effectiveness of internal audit unit



Source: IIA(2009)

APPENDIX B

QUESTIONNAIRE FOR INTERNAL AUDITORS

I am Abudu Dawuda, an MBA student of the University of Cape Coast, conducting a research on the effectiveness of the internal audit units in the Public Sector in promoting good corporate governance.

In line with this, you are kindly requested to complete this questionnaire. Your responses will be kept strictly anonymous and confidential and would be used only for the purpose of this research.

A. BACKGROUND CHARACTERISTICS

1. Name
District/Municipal/Metropolitan.....
2. Gender: Male Female
3. Age: 21-25 26-30 31-35 36 and above
4. Academic Qualification:
 Degree
 Diploma
 Post-Secondary
Other Specify
- 5 Professional Qualification (if any)

B. GOOD CORPORATE GOVERNANCE

6. Why do you think good corporate governance is necessary in the Metropolitan/Municipal and District Assemblies?.....

.....

7. How important are the following elements in ensuring good corporate governance? Give your response by ticking Very Important (VI), Important (I), Somehow Important (S I), Unimportant (U) and Very Unimportant (V U)

| Elements | VI | I | SI | U | VU |
|--|----|---|----|---|----|
| Transparency at all levels of Government | 5 | 4 | 3 | 2 | 1 |
| Accountability to the public | 5 | 4 | 3 | 2 | 1 |
| Effective, efficient and economical use of resources | 5 | 4 | 3 | 2 | 1 |
| Responsible to the people | 5 | 4 | 3 | 2 | 1 |
| Equitable distribution of resources and inclusive policy | 5 | 4 | 3 | 2 | 1 |
| Other (Specify) | 5 | 4 | 3 | 2 | 1 |

C. ORGANISATIONAL SETTING

8. Where is your internal audit unit located in the Assembly?

.....

9. Are you allowed access to all information, records and employees to come to an informed judgement in your audit work?

- fully allowed
- partially allowed
- Not allowed

10. Apart from audit work, do you play other non related audit role(s) (eg. Preparing accounts, budget preparation etc)

- Yes
- No

If yes, state the role(s).....

11. Indicate how much you agree or disagree with the following statements relating to your department by ticking Strongly Agree (SA), Agree (A), Disagree (D), Strongly Disagree (SD) and Neutral (N).

| Statements | SA | A | D | SD | U |
|--|----|---|---|----|---|
| a. Internal audit department is given low status in the assemblies management structure | 5 | 4 | 3 | 2 | 1 |
| b. Inadequate budget allocation for the department | 5 | 4 | 3 | 2 | 1 |
| c. MMDAs polices and procedures are not clearly defined for the internal audit department | 5 | 4 | 3 | 2 | 1 |
| d. Management have wrong perception about internal auditors as fault finders rather than adding value to good corporate governance | 5 | 4 | 3 | 2 | 1 |
| e. No regular in servicing training for internal auditors | 5 | 4 | 3 | 2 | 1 |
| f. No opportunity to seek the assistance of experts during audit process especially when assessing value of a contract, property. | 5 | 4 | 3 | 2 | 1 |
| g. Internal Auditors are not given a representation in Board meetings | 5 | 4 | 3 | 2 | 1 |
| h. The unit is not free to choose any transaction or area of interest for audit | 5 | 4 | 3 | 2 | 1 |
| i. The unit is not allowed pre-transaction audit | 5 | 4 | 3 | 2 | 1 |

12. There are no adequate resources including utilisation and availability of appropriate technology to enhance the work of the internal audit department in the Assemblies. To what extent do you agree with this fact? Provide your response using Strongly Agree (SA), Agree (A), Disagree (D), Strongly Disagree (SD) and Undecided

[] Strongly Agree (5)

[] Agree (4)

[] Disagree (3)

[] Strongly Disagree (2)

[] Undecided (1)

D. INTERNAL AUDIT QUALITY

13. How long have you being working as internal auditor?

.....

14. State the number of internal audit staff you have.

15. How do you assess the staff number you mentioned in 13?

[] Very adequate (5)

[] Adequate (4)

[] Somehow adequate (3)

[] Inadequate (2)

[] Very inadequate (1)

16. Examining the internal control system

(Please mark the corresponding box for the audit activity applicable to your audit unit) using Always Done (AD), Often Done (OD), Occasionally Done (OCD), Rarely Done (RD)

| Internal Audit Activities in the assemblies | AD | OD | OCD | RD |
|---|----|----|-----|----|
| Compliance with law and regulations | 4 | 3 | 2 | 1 |
| Checking budget implementation | 4 | 3 | 2 | 1 |
| Evaluating keeping of accounting errors (mistakes, delays etc.) and fraud detection | 4 | 3 | 2 | 1 |
| Evaluating management's efforts to the recovery of receivable ,taxes and other collectables | 4 | 3 | 2 | 1 |
| Assessing reliability and soundness of financial information | 4 | 3 | 2 | 1 |
| Examine and assess the policies, procedure and manuals and | 4 | 3 | 2 | 1 |

| | | | | |
|--|---|---|---|---|
| recommend best practices | | | | |
| Examine use of Assembly resources and safeguard of assets | 4 | 3 | 2 | 1 |
| Examine productivity | 4 | 3 | 2 | 1 |
| Assessing Unethical behaviour of management and recommending best practices | 4 | 3 | 2 | 1 |
| Test the organisation's conformity with objective requirement standard, criteria (compliance | 4 | 3 | 2 | 1 |
| Model control environment (risk management system and controls | 4 | 3 | 2 | 1 |
| Evaluate projects/programs accomplishment (effectiveness | 4 | 3 | 2 | 1 |

17. Tick as many as possible the following qualities in your opinion you think internal auditors need to possess in order to be effective

- Competencies
- Objectivity
- Professionalism
- Independent attitude of mind
- Exercising good judgement of materiality

Other(Specify).....

.....

E. EXISTENCE OF AUDIT COMMITTEE

18. Do you have Audit committee in your district?

Yes

No

19. To what extent do you agree with the following roles perform by audit committee in ensuring the effectiveness of the internal audit unit? Provide your response using Strongly Agree (SA), Agree (A), Disagree (D), Strongly Disagree (SD) and Neutral (N)

| Statements | SA | A | D | SD | N |
|--|----|---|---|----|---|
| it protects the independency of internal auditors | 5 | 4 | 3 | 2 | 1 |
| it supports the budget of internal audit department | 5 | 4 | 3 | 2 | 1 |
| it receives recommendations and ensures their implementation | 5 | 4 | 3 | 2 | 1 |
| Other (Specify) | 5 | 4 | 3 | 2 | 1 |

F. EXISTENCE OF FORMAL MANDATE (APPOVED AUDIT ACT OR CHARTER)

20. What document(s) are audit activities, power, mandate, duties, functional and administrative lines of the internal audit are clearly established or defined? Tick as many as possible

Internal Audit Agency Act 2003, Ghana

Internal Audit Standard

Sarbanes-Oxley Act 2002

Companies Code, Ghana

Ghana Audit Service Act

Other

(Specify).....

21 Do you have Internal audit Charter?

Yes

No

22. Internal Auditors can not carry out their professional work effectively without approved Act or Charter? To what extend do you agree or disagree with this statement.

Strongly agree

Agree

Disagree

Strongly Disagree

Undecided

G. MANAGEMENT SUPPORT

23. What is the reporting relationship (that is, who do you report your audit findings to in your Assembly)?

24. Assess the support you receive from management using Very Dissatisfied (VD), Dissatisfied (D) Somehow Dissatisfied (SD), Satisfied (S) and Very Satisfied (VS) on the basis of the following items

| Items | VS | S | SD | D | VD |
|--|----|---|----|---|----|
| Implementation of recommendations and timely feedback from management | 5 | 4 | 3 | 2 | 1 |
| Relationship with management | 5 | 4 | 3 | 2 | 1 |
| Management interference with internal audit work | 5 | 4 | 3 | 2 | 1 |
| Commitment of management in supporting the budgetary status of the internal audit unit | 5 | 4 | 3 | 2 | 1 |

H. RELIANCE ON INTERNAL AUDITORS BY EXTERNAL AUDITORS

25. How frequent do external auditors rely on you?

- Always
- Often
- Occasionally
- Not at All

Give reason(s) for your choice

.....

.....

.....

I. ADDING VALUE AND ADVISORY ROLE OF INTERNAL AUDIT

26. Please rate the following possible advisory roles of the internal audit to management applicable to your Assembly using Always Done (AD) , Often Done Occasionally Done OCD and Rarely Done(RD) .

| Advisory roles | AD | OD | OCD | RD |
|---|----|----|-----|----|
| a. Good Corporate Governance | 4 | 3 | 2 | 1 |
| b. Ethical practices and Anticorruption | 4 | 3 | 2 | 1 |
| c. Effective risk assessment and management | 4 | 3 | 2 | 1 |
| d. Designing and implementing internal control System | 4 | 3 | 2 | 1 |
| e. Sound business practice | 4 | 3 | 2 | 1 |
| f. Project management | 4 | 3 | 2 | 1 |
| g. Program evaluation | 4 | 3 | 2 | 1 |

27. The following factors make internal auditors effective. To what extent do you agree or disagree with the following factors. State your response using, Agree

(SA), Agree (A), Disagree (D), Strongly Disagree (SD) and Neutral (N), mark appropriate column for each factor.

| Factors | SA | A | D | SD | N |
|--|----|---|---|----|---|
| a. Existence of Audit committee | 5 | 4 | 3 | 2 | 1 |
| b. Competencies and experience of internal audit staff | 5 | 4 | 3 | 2 | 1 |
| c. Existence of Approved internal audit act, standards | 5 | 4 | 3 | 2 | 1 |
| d. Management support | 5 | 4 | 3 | 2 | 1 |
| e. Organisational independence | 5 | 4 | 3 | 2 | 1 |
| f. Implementation of internal audit recommendations | 5 | 4 | 3 | 2 | 1 |
| g. Adequate resources | 5 | 4 | 3 | 2 | 1 |
| h. Unrestricted access to records, assets, employees etc | 5 | 4 | 3 | 2 | 1 |
| i. Quality leadership of internal audit chief executive | 5 | 4 | 3 | 2 | 1 |
| j. Rotation or transfer of internal audit staff | 5 | 4 | 3 | 2 | 1 |
| k. Job satisfaction and security | 5 | 4 | 3 | 2 | 1 |
| l. Regular In-service training | 5 | 4 | 3 | 2 | 1 |
| m. Opportunity to take part in the decision making process in the organisation | 5 | 4 | 3 | 2 | 1 |
| n. Opportunity to seek for outside expertise | 5 | 4 | 3 | 2 | 1 |

28 State other factors in your opinion you think can make internal auditors effective

.....

29 State the challenges the internal audit unit in your Assembly faces

.....

30 Suggestions and Comments

.....

| Elements | VI(5) | I(4) | SI(3) | U(2) | VU(1) |
|--|-------|------|-------|------|-------|
| Transparency at all levels of Government | | | | | |
| Accountability to the public | | | | | |
| Effective, efficient and economical use of resources | | | | | |
| Responsible to the people | | | | | |
| Equitable distribution of resources and inclusive policy | | | | | |
| Other (Specify) | | | | | |

RELIANCE ON INTERNAL AUDITORS BY EXTERNAL AUDITORS

8. Indicate the extent to which you rely on the internal auditors?

- Always
- Often
- Occasionally
- Rarely

Give reason(s) for your choice.....

INTERNAL AUDIT QUALITY

11. Tick as many as possible the following qualities in your opinion you think internal auditors need to possess in order to be effective

- Competencies
- Objectivity
- Professionalism
- Independent attitude of mind
- Exercising good judgement of materiality

Other

(Specify).....

12. How do you assess the competencies of internal auditors in the various district, municipal and metropolitan assemblies?

above average

average

below average

13. How do you assess the experience level of internal auditors in your operating area?

Very experienced

experienced

somehow experienced

not experienced

very unexperienced

14. Do your internal auditors in the MMDAs have audit programme (planning memorandum) establishing objectives and scope of their audit work?

Yes

No

ORGANISATIONAL SETTING

16. The internal auditors enjoy little organisational independency in the MMDAs. To what extent do you agree or disagree with this statement. State your response using, Agree (SA), Agree (A), Disagree (D), Strongly Disagree (SD) and Neutral (N).

Strongly agree

Agree

Disagree

Strongly disagree

Neutral

17. Do you think internal auditors are allowed access to all information, records and employees to come to an informed judgement in their audit work?

- fully allowed
- partially allowed
- Not allowed

PRESENE OF AUDIT COMMITTEE

18. To what extent do you agree with the following roles perform by audit committee in ensuring the effectiveness of the internal audit unit? Provide your response using Strongly Agree (SA), Agree (A), Disagree (D), Strongly Disagree (SD) and Neutral (N).

| Statements | SA | A | D | SD | U |
|--|----|---|---|----|---|
| it protects the independency of internal auditors | | | | | |
| it supports the budget of internal audit department | | | | | |
| it receives recommendations and ensures their implementation | | | | | |
| Other (Specify) | | | | | |

EXISTENCE OF FORMAL MANDATE 9(APPOVED AUDIT ACT OR CHARTER)

20. Internal Auditors can not carry out their professional work effectively without approved Act or Charter? To what extent do you agree or disagree with this statement.

- Strongly agree
- Agree
- Disagree
- Strongly Disagree
- Neutral

MANAGEMENT SUPPORT

21. How do you assess relationship between management and internal auditors in the district/ municipal/metropolitan assemblies?

- very cordial
 cordial
 uncordial
 very uncordial

22. How do you assess the commitment of the management in implementing internal audit recommendations and supporting the unit to function effectively?

- high commitment
 low commitment
 No commitment

23. The following factors make internal auditors effective. To what extent do you agree or disagree with the following factors. State your response using, Agree (SA), Agree (A), Disagree (D), Strongly Disagree (SD) and Neutral (N), mark appropriate column for each factor.

| Factors | SA | A | D | SD | N |
|---|----|---|---|----|---|
| Existence of Audit committee | 5 | 4 | 3 | 2 | 1 |
| Competencies and experience of internal audit staff | 5 | 4 | 3 | 2 | 1 |
| Existence of Approved internal audit act, standards | 5 | 4 | 3 | 2 | 1 |
| Management support | 5 | 4 | 3 | 2 | 1 |
| Organisational independence | 5 | 4 | 3 | 2 | 1 |
| Implementation of recommendation | 5 | 4 | 3 | 2 | 1 |
| Adequate resources | 5 | 4 | 3 | 2 | 1 |
| Unrestricted access to records, assets, employees etc | 5 | 4 | 3 | 2 | 1 |
| Quality leadership of internal audit chief executive | 5 | 4 | 3 | 2 | 1 |
| Rotation or transfer of internal audit staff | 5 | 4 | 3 | 2 | 1 |

| | | | | | |
|---|---|---|---|---|---|
| Job satisfaction and security | 5 | 4 | 3 | 2 | 1 |
| Regular In-service training | 5 | 4 | 3 | 2 | 1 |
| Opportunity to take part in the decision making process in the organisation | 5 | 4 | 3 | 2 | 1 |
| Opportunity to seek for outside expertise | 5 | 4 | 3 | 2 | 1 |

24. State other factors which in your opinion can make internal audit unit effective

.....

27. State any challenge(s) facing the internal audit unit in your Assembly

.....

APPENDIX D

QUESTIONNAIRE FOR FINNACE OFFICERS

I am Abudu Dawuda, an MBA student of the University of Cape Coast, conducting a research on the effectiveness of the internal audit units in the Public Sector in promoting good corporate governance.

In line with this, you are kindly requested to complete this questionnaire. Your responses will be kept strictly anonymous and confidential and would be used only for the purpose of this research.

A. BACKGROUND CHARACTERISTICS

1. Gender:

Male []

Female []

GOOD CORPORATE GOVERNANCE

2. Why do you think good corporate governance is necessary in the Metropolitan/Municipal and District Assemblies?.....

3. How important are the following elements in ensuring good corporate governance. Give your response ticking Very Important (VI), Important (I), Somehow Important (S I), Unimportant (U) and Very Unimportant (V U)

| Elements | VI(5) | I(4) | SI(3) | U(2) | VU(1) |
|--|-------|------|-------|------|-------|
| Transparency at all levels of Government | 5 | 4 | 3 | 2 | 1 |
| Accountability to the public | 5 | 4 | 3 | 2 | 1 |
| Effective, efficient and economical use of | 5 | 4 | 3 | 2 | 1 |

| | | | | | |
|--|---|---|---|---|---|
| resources | | | | | |
| Responsible to the people | 5 | 4 | 3 | 2 | 1 |
| Equitable distribution of resources and inclusive policy | 5 | 4 | 3 | 2 | 1 |
| Other (Specify) | 5 | 4 | 3 | 2 | 1 |

ORGANISATIONAL SETTINGS

4 There are no adequate resources including utilisation and availability of appropriate technology to enhance the quality of the work of internal audit department in your Assembly .To what extent do you agree with this fact? Provide your response using Strongly Agree (SA), Agree (A), Disagree (D), Strongly Disagree (SD) and Undecided

- Strongly Agree
- Agree
- Disagree
- Strongly Disagree
- Undecided

5. Do you have a clearly defined policies, procedures and programmes for internal auditors in your assembly?

- Yes
- No

Provide reason(s) for your answer.....

INTERNAL AUDIT QUALITY

6. Tick as many as possible the following qualities in your opinion you think internal auditors need to possess in order to be effective

- Competencies
- Objectivity
- Professionalism
- Independent attitude of mind
- Exercising good judgement of materiality

Other

(Specify).....

7. How do you assess the competencies of internal auditors in the various district, municipal and metropolitan assemblies?

- above average
- average
- below average

8. How do you assess the experience level of the internal auditors in your assembly?

- Very experienced
- experienced
- somehow experienced
- not experienced
- very unexperienced

9. IIA(2009) provides some qualities of audit communication; namely accurate, objective, clear, concise, constructive, complete and timely. How do you assess the communication of the internal auditors in relation to each of these qualities?

| Audit communication qualities | Assessment | | | |
|-------------------------------|------------|-----------|------|------|
| | Excellent | Very Good | Good | Poor |
| Accurate audit reports | | | | |
| Objective audit reports | | | | |
| Clear audit reports | | | | |
| Concise audit reports | | | | |
| Constructive audit reports | | | | |
| Complete audit report | | | | |
| Timely audit report | | | | |

10. The internal audit staff should be transferred across the districts, municipalities and metropolitans periodically in order to enhance their independency. How is it important?

- Extremely important
- Very important
- important
- Very unimportant
- Extremely unimportant

EXISTENCE OF AUDIT COMMITTEE

12. To what extent do you agree or disagree with the following roles perform by audit committee in ensuring the effectiveness of the internal audit unit? Provide your response by ticking Strongly Agree (SA), Agree (A), Disagree (D), Strongly Disagree (SD) and Neutral (N)

| Statements | SA | A | D | SD | U |
|---|----|---|---|----|---|
| it protects the independency of internal auditors | | | | | |
| it supports the budget of internal audit department | | | | | |
| it receives recommendations and ensures their | | | | | |

| | | | | | |
|-----------------|--|--|--|--|--|
| implementation | | | | | |
| Other (Specify) | | | | | |

EXISTENCE OF FORMAL MANDATE 9(APPOVED AUDIT ACT OR CHARTER)

14. Internal Auditors can not carry out their professional work effectively without approved Act or Charter? To what extent do you agree or disagree with this statement.

- Strongly agree
- Agree
- Disagree
- Strongly Disagree
- Undecided

MANAGEMENT SUPPORT

15. How do you assess your relationship with the internal auditors in your assembly?

- very cordial
- cordial
- uncordial
- very uncordial

17 The following factors make internal auditors effective. To what extent do you agree or disagree with the following factors. State your response by ticking Strongly Agree (SA), Agree (A), Disagree (D), Strongly Disagree (SD) and Neutral(N)

| Factors | SA | A | D | SD | N |
|---|----|---|---|----|---|
| Existence of Audit committee | 5 | 4 | 3 | 2 | 1 |
| Competencies and experience of internal audit staff | 5 | 4 | 3 | 2 | 1 |
| Existence of Approved internal audit act, standards | 5 | 4 | 3 | 2 | 1 |
| Management support | 5 | 4 | 3 | 2 | 1 |
| Organisational independence | 5 | 4 | 3 | 2 | 1 |
| Implementation of internal audit recommendations | 5 | 4 | 3 | 2 | 1 |
| Adequate resources | 5 | 4 | 3 | 2 | 1 |
| Unrestricted access to records, assets, employees etc | 5 | 4 | 3 | 2 | 1 |
| Quality leadership of internal audit chief executive | 5 | 4 | 3 | 2 | 1 |
| Rotation or transfer of internal audit staff | 5 | 4 | 3 | 2 | 1 |
| Job satisfaction and security | 5 | 4 | 3 | 2 | 1 |
| Regular In-service training | 5 | 4 | 3 | 2 | 1 |
| Opportunity to take part in the decision making process in the organisation | 5 | 4 | 3 | 2 | 1 |
| Opportunity to seek for outside expertise | 5 | 4 | 3 | 2 | 1 |

18.State other factors in your opinion you think can make internal audit unit effective

.....

19. State any challenge(s) facing the internal audit unit in your Assembly

.....

APPENDIX E

INTERVIEW SCHEDULE FOR CHIEF INTERNAL AUDITORS

SECTION A: PARTICULARS OF CHIEF INTERNAL AUDITORS

- 1. Age.....
- 2. Gender
- 3. Name of Metropolitan/Municipal/District.....

SECTION B: CORPORATE GOVERNANCE

4. Why should there be effective corporate governance system in the public sector?

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

SECTION C: ORGANISATIONAL SETTINGS

What would you say about the independence of your unit in the Assemblies?

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

7. How do you assess the budget allocation of your unit in relation to your audit assignment?

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

8. What audit activities do you perform in the assemblies?

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

SECTION D: MANAGEMENT SUPPORT

9. How do you assess your relation with management of your Assembly?

.....
.....

10. What support do you receive from management?

.....
.....

SECTION E: AUDIT COMMITTEE

11. How do you assess the work of the audit committee in your Assembly in relation to your work?

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

12. Why is it necessary to have an audit committee in your Assembly?

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

13. What challenges do you face as an internal auditor in your Assembly?.....

.....
.....
14. What should be done to ensure effective internal audit in the public sector?

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