

# ASSESSING THE RELEVANCE OF INTERNAL AUDIT TO CORPORATE GOVERNANCE IN METROPOLITAN, MUNICIPAL AND DISTRICT ASSEMBLIES IN GHANA

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## Abstract

Evidence from studies reveal ineffectiveness of the internal audit investigations regarding its effects on the public sectors and the lack of proper attention being paid to budgetary controls in these public sectors. The study examined the role of internal audit in Metropolitan, Municipal and District Assemblies (MMDAs) in Ghana so as to determine their relevance to governance. Specifically, the study examined the human resource management practices of the Internal Audit Units in the MMDAs; determined the level of independence of the internal audit units in the performance of their functions; and finally evaluated the quality (effectiveness) of internal audit functions in the Assemblies. A structured questionnaire was used as a primary data collection instrument from respondents selected through purposive and convenient means. Items of the questionnaire were measured on the Likert ranking scale. Ten (10) Assemblies in the Greater Accra region were selected. Overall, 70 respondents were sampled including 55 internal auditors, and 15 budget officers of the Assemblies. Data analysis was done using descriptive statistics. The study concludes that the Assemblies have strong human resource management practices in the Internal Audit Unit to ensure effective functioning of the internal auditor. However, the study found that there is weak quality assurance, weak continuous improvement programs for the auditors, and poor conditions of service to motivate the internal auditors in the performance of their functions. The internal auditors in the Assemblies perform their functions with little or no internal and external interferences. The internal auditors in the Assemblies are effective in the performance of their functions. The internal auditors are capable of performing their functions and are therefore relevant to the Assemblies.

# INTRODUCTION

## Background of the Study

In the public sector, controls are mainly in-built in the public financial management system. Public financial management includes the legal and organizational framework for supervising all phases of the budget cycle, including the preparation of the budget, internal control and audit, procurement, monitoring and reporting arrangements, and external audit. The effectiveness of public financial management activities of public organizations therefore can be enhanced through effective internal audit functions. This study therefore seeks to determine the effect of internal audit functions on the financial management activities of public sector organizations in Ghana

Internal auditing is an integral part of governance in both the public and the private sectors (Cohen et. al., 2002). Historically, internal audit has been considered as a monitoring function-the "organizational policeman and watchdog" (Morgan, 1979), tolerated as a necessary component of organizational control but deemed subservient to the achievement of major corporate objectives. According to the Institute of Internal Auditors (2011), internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes. It is apparent from this definition that internal auditing (IA) is expected to add value to organizations by providing a wide range of services including assurance and operational (performance) audits as well as management consulting on a variety of issues.

The importance of internal audit in public sectors provides for reduction in costs on activities of the government by identifying inefficiencies and investigating potential theft or fraud in operations. It ensures compliance with applicable acts and policies. Internal audit is intended to target the financial controls used for delivery of funds, projects and programs. It also deals with financial management particularly in terms of development, communication, and maintenance of financial management control framework for regular programs, projects and disbursement of funds. Therefore, the internal audit function plays a unique role in corporate governance by monitoring organizational risks and ensuring that organizational processes are efficient and effectively controlled (Institute of Internal Auditors Research Foundation, 2003).

An internal audit function is an essential part of any public expenditure management system and should ensure that public spending is within budgetary provisions; disbursements comply with specified procedures, provide for the timely reconciliation of accounts and effective systems for managing and accounting for physical and financial assets (Commonwealth Secretariat 2005). Van Gansberghe (2005) puts forward the case that: "...Management must recognize the value added role of internal audit and contribute towards its effectiveness." He also states that "...as internal auditing in the public sector assumes a status of professional practice, management would benefit from its recommendations in improving its decision-making and thus would be playing a more proactive and foresight role". Internal audit function provides internal consulting services to the management in public sector institutions and hence the executive arm of government for smooth and efficient functioning and for reviewing and improving

its performance. It also ensures that there are efficient controls and greater transparency in the decision and policy-making processes of government functionaries and institutions in delivering services successfully and in carrying out development programs in an efficient and appropriate manner. Public sector controls cover all aspects of activities including financial, managerial and operational policies. They are intended to safeguard assets, ensure the accuracy and reliability of financial information, and promote operational efficiency.

Furthermore, Prawitt et al. (2006) found that the internal audit function moderates the level of earnings management in companies. Additionally, recent speeches from Securities and Exchange Commission (SEC) officials (e.g. Herdman, 2002; Richards, 2002; Gadziala, 2005) emphasize the significance of internal audit to a company's governance structure. Therefore, inefficiency in the role of internal audit can result in financial reporting irregularities, fraud and low organizational performance.

#### Statement of the Problem

Evidence from studies reveal ineffectiveness of the internal audit investigations regarding its effects on the public sectors and the lack of proper attention being paid to budgetary controls on these public sectors. A study carried out by the World Bank in 2006 on the Public Financial Management in Ghana

revealed insufficient understanding of the effects of internal audit in ensuring appropriate controls in an environment where the accounting officers are formally held accountable for their expenditure. The study also found weak capacities amongst the staff of Internal Audit Units in the MMDAs which undermine the effectiveness of the internal audit function in carrying out its roles (World Bank, 2006). This brings into question the relevance of internal audit in public institutions as a vehicle for sound public sector governance.

In recent years, there have been articles stating that corruption, fraud, financial mismanagement, and errors, are resulting in inefficient systems associated with the public sector. This is amply exemplified by the Public Accounts Committee (PAC) of the Parliament of Ghana which reviews the audit reports of the Auditor General on the financial management practices of public institutions in Ghana (PAC, 2012).

The relevant questions emanating are: what is the level of efficiency or effectiveness of the internal audit functions of the public sector of Ghana? What is the performance of the financial management of public organizations in Ghana? To what extent does the internal audit function affect the performance of financial management in public organizations in Ghana? Finding answers to the above questions is the direction or focus of this study.

## Objectives of the Research

To achieve the purpose of the study, the following specific objectives have been outlined:

- i. To examine the human resource management practices of the Internal Audit Units in the MMDAs
- ii. To determine the independence of the Internal Audits Units of the MMDAs
- iii. To examine the quality (effectiveness) of internal audit functions in the MMDAs

# LITERATURE REVIEW

## Theoretical Literature

### Concept of Internal Audit

In order to determine internal audit effectiveness, it is important to analyze the concept of internal audit (Savcuk, 2007). Internal audit is defined by the Committee of Sponsoring Organizations of the Treadway Commission, COSO (1992) as a procedure which offers fundamental security to the business or entity concerning the credibility of its financial affairs. An important step was the 1999 definition of Internal auditing issued by the Institute of Internal Auditors (IIA, 1999), which clearly states that "...the internal auditing activity should evaluate and contribute to the improvement of risk management, control and governance" (IIA, 1999). This definition shifts the focus of the internal audit function from one of assurance to that of value added and attempts to move the profession toward a standards-driven approach with a heightened identity (Bou-Raad, 2000; Krogstad et al., 1999).

The Institute of Internal Auditors (2004) stated that the internal audit activity should evaluate and contribute to the improvement of risk management, control, and governance by recognizing the assurance and consulting roles of internal auditing in corporate governance. The IIA sees the objective of internal auditing as both supporting and strengthening an organization's governance mechanisms and evaluating and improving the effectiveness of risk management and control.

It can be argued from the IIA's 1999 definition of internal auditing that the internal auditor is required to be a multi-skilled individual. The internal audit profession has expanded over the years to include a much broader spectrum of services and activities. It has become one of

the more important key players in corporate governance (King, 2001). Internal auditors now also place significant emphasis on the participative approach to internal auditing, which aims to achieve involvement within, and co-operation with the engagement client in order to improve operations and add continuous value to their organisations (Ratliff, et al. 1967). The participative approach is more achievable as a result of the new definition of internal auditing.

A more specific definition is given by Sawyer who stated that internal auditing is:

...a systematic, objective appraisal by internal auditors of the diverse operations and controls within an organization to determine whether (1) financial and operating information is accurate and reliable, (2) risks to the enterprise are identified and minimized, (3) external regulations and acceptable internal policies and procedures are followed, (4) satisfactory operating criteria are met, (5) resources are used efficiently and economically, and (6) the organization's objectives are effectively achieved. All for the purpose of consulting with management and for assisting members of the organization in the effective discharge of their governance responsibilities (2003).

Arens et al. (2003) also observe that auditing is the accumulation and evaluation of evidence about information to determine and report on the degree of correspondence between the information and established criteria and communicating result to interested users. Studying the above two definitions, some key words and phrases have been found to be common. These are discussed accordingly. Evidence is defined as any information used by the auditor to determine whether the information being audited is stated in accordance with the

established criteria (Arens et al., 2003). To have an unbiased and clear communication, criteria must exist whereby an independent observer can assess whether the assertions made are appropriate. Statement of Auditing Standards, Generally Accepted Accounting Principles, etc. provide those criteria for financial statement audit.

Whether in the private or public sectors, confidence in auditing rests, to a great degree, on the independence and objectivity of the auditor (Marechal et al, 2000). This can be absolute when there is a goal that is being pursued, and it can be achieved to a certain degree (Arens et al, 2003). The auditor needs to be sufficiently independent to conduct audits that can be relied upon by users.

### Objects of internal audit

The objects of an audit can be classified as primary and subsidiary (Millichamp, 2002). According to him, the primary object of audit is to produce a report by the auditor of his opinion of the truth and fairness of financial statements so that any person reading and using them can have belief in them. The subsidiary objects include:

- To detect errors and fraud;
- To prevent errors and fraud by deterrent and moral effect of the audit;
- To provide spin-off effects. The auditor will be able to assist his client with accounting, systems, taxation, financial, risk management and other problems.

Another object of audit could be to satisfy statutory requirement, for the purposes of mergers and acquisitions, among others.

From the above, it can be seen that the subsidiary objects of audit are captured within the wide scope of internal auditing which is basically a management function. On the other hand, the primary object will largely fall

under the functions of external audit, which is not within the scope of this study.

### Internal auditing in the public Sector

According to Glynn (1983), "...Public sector internal auditing deserves a book of its own". At the technical level, public sector audit is similar to private sector audit. However, with varied objectives of the public sector as regards that of the private, public sector internal auditing may fail to have a single complete definition. In the opinion of Jones and Bates (1994), the wide-ranging remit of public sector auditors often makes definition of public sector auditing different from that in the private sector. However, any single definition of auditing is unlikely to be complete and useful to practicing public sector auditors.

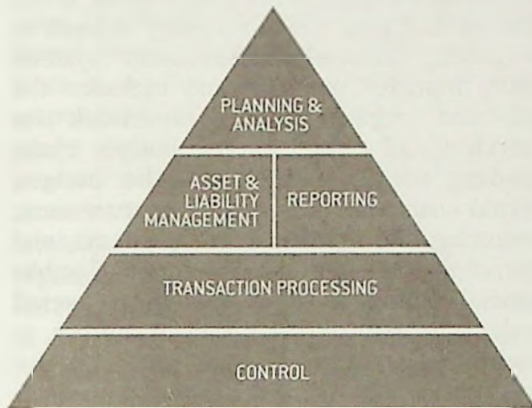
The Internal Audit Agency Act, 2003, of Ghana established an Internal Audit Department as a central agency to co-ordinate, facilitate, monitor, and supervise internal audit activities within the Ghanaian Ministries, Departments and Agencies (MDAs) and Metropolitan, Municipal and District Assemblies (MMDAs). The basic objectives are to secure quality assurance of internal audit within these institutions of state, to provide for the board of the Internal Audit Departments and to provide for connected purposes.

### Internal auditing and financial management

Internal audit has evolved from a primarily financial compliance function to a key component of an organization's governance framework. Internal auditing plays a vital role in the financial management of any organization. This is because in every framework of financial management (planning and analysis, asset and liability management, transaction processing and control) internal audit seems to have vested interests and roles. Figure 1 below is the

hierarchical framework of financial management as per the Financial Management Framework (FMF) developed in the United States in 1987, which is still deemed valid.

Figure 1: **Hierarchical Framework of Financial Management**



Source: [ DEC Corporate, 2005 ]

The control component of the framework underpins all other components in the hierarchy. Transaction processing supports asset and liability management and reporting, which in turn, provide the tools for effective planning and analysis. This implies that internal auditing, with its main aim of examining and evaluating the activities of management coupled with its value added service of improving the effectiveness of risk management and control systems is crucial to strengthening the governance process of an organization. Woven into the fabrics of the public sector, internal auditing has been accepted as a concrete element to ensuring good governance and accountability.

#### **Internal audit in public sector and accountability**

Internal audit is an integral part of the process of accountability. Its general objective is to

ensure and promote the effective performance of accountability assumed by the management of an organization. As Glynn (1983) noted, the theme of accountability is crucial to the operation of both the private and the public sectors. Public office carries with it the responsibility to judiciously apply resources to achieve the purpose for which the resources were provided. Through accounting information, for example, the public has the chance of assessing whether the government has been equal to its assignment or responsibilities or has fallen short on ability, achievement or even honesty.

As the management of public funds represents a trust, the concept of audit has become inherent in public finance administration. Audit is a major element in financial coordination and control. To the conventional audit role of inspector is added the role of adviser and consultant on public financial administration. The extent to which national audit institutions assume such an advisory role in addition to their original "watchdog" function is an indication of their commitment to strengthening good governance and the earning of a favourable public image. Correspondingly, should audit allow the interpretation of its role to be restricted, its support for the governance process becomes at best marginalized.

The growth in the public sector, both in terms of its scale and the diversity of its activities, has outstretched the traditional machinery of public accountability, heavily dependent upon the formal relationship between the executive and the legislature. There have emerged alternative views of what accountability entails, involving different answers to both the substance and form of account. The concept of accountability, which now dominates the debate is made up of political accountability, managerial accountability, and legal accountability (Heald, 1983).

In developing his argument Heald (1983),

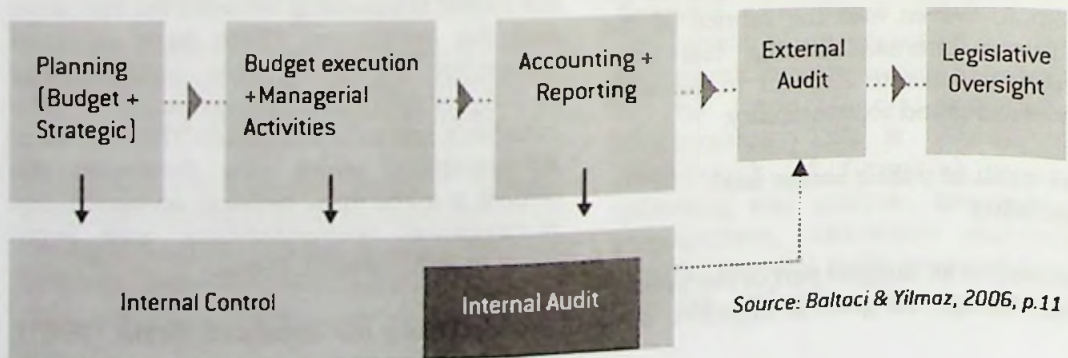
incorporates his three classifications of accountability with the nine types of accountability distinguished by Smith (1980). Sociologists and political scientists have devoted much time to developing a variety of theories on the determination of public sector expenditure. Likewise, economists have discussed at length technical aspects of economic policy, particularly macroeconomic policy. However, accountants who also ought to be concerned with the concepts of accountability have not traditionally played a major role. On the one hand, this can be attributed to unwillingness by politicians to provide for a greater disclosure of information. On the other hand, the accountancy profession has only contributed to a limited extent, to improving commercial and professional accountability. Further work needs to be carried out in order to improve the present level of constitutional, decentralized, and resource concepts of accountability.

To public administrators and political scientists the word accountability generally relates to the separation of powers and responsibilities. In view of the nature of the public sector, the term 'acting in the public interest' is often used when considering the question of responsibility for what and to whom. It is a phrase that underlies nearly all discussions on public policy, political action, social value, and individual interest. To date however, there is no agreement as to what we mean when we use the term.

**Role of internal audit in the public sector - Control**

According to Asare (2008), management control in the public sector includes all the policies and procedures put in place by a government and the management of public sector entities aimed at promoting accountability for resources. Another term for management control is internal control. In the public sector, controls are mainly in-built in the public financial management system. Public financial management includes the legal and organizational framework for supervising all phases of the budget cycle, including the preparation of the budget, internal control and audit, procurement, monitoring and reporting arrangements, and external audit. The broad objectives of public financial management are to achieve overall fiscal discipline, allocation of resources to priority needs, and efficient and effective allocation of public services. Internal audit, in turn, has the key function of reporting to the senior management of public sector entities on the functioning of the management control systems, and recommending improvement, where applicable. Control structures and the accountability framework cover a broader spectrum of public financial management issues as shown in Figure 2 below, which include strategic planning (including budgeting); managerial activities (procurement, public debt and asset management); accounting and reporting; internal and external audit; and legislative oversight.

Figure 2: **Public Financial Management Cycle**



## Empirical Literature

A study was conducted by Coram and Ferguson (2010) to assess whether organizations with an internal audit function are more likely to detect fraud than those without. In this study, a unique self-reported measure of fraud was used, primarily relating to the misappropriation of assets, for the first time. The fraud data are from the 2004 KPMG Fraud Survey. The internal audit data were from a separate mail survey sent to the respondents of the KPMG Fraud Survey. The study found that organizations with an internal audit function are more likely than those without such a function to detect fraud within their organizations. Further, organizations that rely solely on outsourcing for their internal audit function are less likely to detect fraud than those that undertake at least part of their internal audit function themselves or internally. These findings suggest that internal audit adds value through improving the control and monitoring environment within organizations to detect fraud. These results also suggest that keeping the internal audit function within the organization is more effective than completely outsourcing that function.

The growing importance of internal auditing as an economic factor has led to systematic research into the factors that improve the performance of internal auditing. In line with this, Albercht et al. (1988) investigated a theoretical framework regarding the effectiveness of internal audit. Basic output was the existence of four areas that the directors of internal audit departments could develop to enhance effectiveness; namely: an

appropriate corporate environment, top management support, high quality internal audit staff, and high quality internal audit work.

Extensive studies have been conducted in many countries into the perception of financial report users of auditors' responsibilities in fraud prevention and detection. Monroe and Woodliff (1994) in Australia; Epstein & Geiger (1994) in the US; Humphrey et al. (1993) in the UK; and Low (1980) in Singapore; Leung and Chau, (2001) in Hong Kong; Dixon and Woodhead (2006) in Egypt; Fadzly and Ahmad (2004) in Malaysia. These studies found that many financial report users believe that the detection of irregularities is a primary audit objective and that the auditors have a responsibility for detecting all irregularities. This is a misconception and shows the existence of an audit expectation gap between auditors and financial report users with respect to the actual duties of auditors.

The extant literature also provides evidence on how perceptions of internal auditor objectivity are affected by the reporting hierarchy of the function. James (2003) found that financial statement users perceived the internal audit function as more effective when internal audit reported to the board of directors than when it reported to senior management. This finding is consistent with internal auditing standards suggesting that the responsibility and authority of the internal audit function should be governed by a company's board of directors (IIA, 2003).



# METHODOLOGY

## Research Design

According to Gratton and Jones (2009), a research design is a structure that guides the execution of the research method and analysis of the subsequent data whilst maximizing the reliability and validity of the findings. Eriksson and Wiedersheim-Paul (2001) noted that the purpose of a research can be exploratory, descriptive, or explanatory depending on the nature of the problem. The researcher adopted an exploratory methodological approach to evaluate the role of internal audit in corporate governance. The study used a structured-questionnaire as the primary data collection instrument to gather data. Only employees of MMDAs, especially those in the internal audit unit were sampled. The findings of the study were presented using descriptive statistics such as frequency distribution, mean, and standard deviation.

## Population and Sampling

The study targeted MMDAs in the Greater Accra Region of Ghana. There were ten (10) Assemblies in the Greater Accra region at the time of the study; two (2) of them were Metropolitan Assemblies (Accra and Tema); six (6) of them were Municipal Assemblies; and the remaining two (2) were District Assemblies. The employees in the internal audit units and finance departments were the main target. Ten (10) of the structured questionnaires were distributed to all ten (10) Assemblies constituting 100 questionnaires. Overall, 70 questionnaires were returned. The distribution of the sample is presented in Table 1 below. The sampling technique was convenient because only target employees of the Assemblies who were willing to volunteer information as required by the study were selected.

Table 1: Sampling process

No.	Assembly
1	Accra Metropolitan Assembly
2	Tema Metropolitan Assembly
3	Adentan Municipality
4	Ga West Municipal Assembly
5	Ga East Municipal Assembly
6	Ga South Municipal Assembly
7	Ledzokukun-Krowor Municipal Assembly
8	Ashiaman Municipal Assembly
9	Dangbe West Assembly
10	Dangbe East Assembly
	Total

## Data Collection Instrument

The questionnaire was structured into four sections as outlined below: The first section (Section A) of the questionnaire assessed the demographic profile of the respondents. The demographic profile of the respondents included items such as: gender, age, level of education, and position held in the Assembly. Section B examined the human resource management practices of the Internal Audit Unit in the MMDAs; Section C dealt with the independence of the internal audits of the MMDAs; and Section D covered the quality of internal audit function (performance) in the MMDAs. Items in this section B to D were measured on a five-point Likert scale (Likert, 1932): 1= strongly disagree, 2=Disagree, 3=Neutral, 4=Agree, 5= strongly agree. Many researchers use this scale because it is relatively easy for respondents to use, and responses from such a scale are likely to be reliable (Nunnally, 1978; Balzan and Baldacchino, 2007; Lam and Kolic, 2008).

Number of questionnaires delivered	Respondents		Number of questionnaires returned	Response rate [%]
	Internal auditors	Budget officers [finance]		
10	6	2	8	80
10	6	1	7	70
10	8	1	9	90
10	5	2	7	70
10	7	1	8	80
10	5	2	7	70
10	5	1	6	60
10	4	2	6	60
10	5	2	7	70
10	4	1	5	50
100	55	15	70	70%

## Validity and Reliability of Research Instrument

The research instrument was validated to ensure that it was able to generate the right information for the study. Content validity was ensured by research experts in internal audit. To test for the internal consistency of the research instrument, samples of the questionnaire were sent to the field for trial (pre-testing). Cronbach's alpha was used to determine the reliability of the measurement set. The measure ranges from 0 to 1. A value of 1 indicates perfect reliability, and a value 0.70 is considered to be the lower level of acceptability (Hair, Anderson, Tatham & Black, 1998). Therefore, a Cronbach's alpha of at least 0.70 is acceptable reliability. Any inconsistency found in the questionnaire was addressed before full scale distribution.

**Table 2: Internal Consistency for Alpha**

Cronbach's alpha	Internal consistency
??0.9	Excellent
0.9 > ?? 0.8	Good
0.8 >?? 0.7	Acceptable
0.7 >?? 0.6	Questionable
0.6 >?? 0.5	Poor
0.5 >?	Unacceptable

The validated and pre-tested questionnaires were distributed to the target employees of the selected Assemblies through personal contact. The target respondents were allowed enough time (3 weeks) to respond to the questionnaire. The questionnaires were retrieved through personal contact for sorting and data analysis

## Data Analysis

In analyzing data obtained from the administration of the questionnaire, descriptive statistics were used. Descriptive statistics such as frequency distribution was used to assess the demographic profile of the respondents. Also, measures such as mean and standard deviation were used to present the human resource management practices of the assembly, the independence of the internal audit units in the Assemblies and the quality of internal audit functions (performance) in the Assemblies. The mean value represents the average response of all the respondents on the

scale for a particular item which the standard deviation represents the spread of the responses along the scale. The following mean values were used in the interpretation of the findings. Mean values less than 2.50 means the respondents disagreed with a particular item, Mean values ranging from 2.50 but less than 3.50 means the respondent were neutral (could neither agree nor disagree) but mean values of 3.50 to 5.00 implies the respondents agreed to items on the scale. Data analysis was done with the help of the statistical software of Statistical Package for Social Sciences (Version, 18).

## PRESENTATION OF FINDINGS

### Demographic Profile of Respondents

Table 3 represents the demographic characteristics of the respondents who were employees of the selected Assemblies.

Table 3: Demographic Profile of Respondents

Profile	Category	Number	Percent [%]
Gender	Male	40	57.1
	Female	30	42.9
	Total	70	100.0
	20-34 yrs	38	54.3
Age [years]	35-49yrs	20	28.6
	50yrs and above	12	17.1
	Total	70	100.0
	SHS/O-level/A-level	6	8.6
	Diploma or HND	6	8.6
Educational background	Professional	10	14.3
	1st Degree or higher	30	42.9
	Masters	18	25.6
	Total	70	100.0
	1-5yrs	52	74.3
6-10 yrs	4	5.7	
Tenure of job [years]	11-15yrs	4	5.7
	16yrs and above	10	14.3
	Total	70	100.0

Demographically, as presented in Table 3, 57.1% (n=40) were males while the remaining, 42.9% (n=30) were females. Concerning the age distribution of the respondents, 54.3% (n=38) were within the age group of 20-34 years of age, 28.6% (n=20) were between 35-49 years of age, and 17.1% (n=12) were found to be 50 years and above. Regarding the educational qualification of the 70 respondents, more than half, 42.9% (n=30) had First Degree qualification; 25.6% (n=18) had Master's level of education; 14.3% (n=10) had Professional Certificate; 8.6% (n=6) held Diploma or High National Diploma (HND)

qualification; and 6.6% (n=2) held SHS/O-level/A-level qualification. Overall, 91.4% (n=64) of the respondents had Diploma qualification or higher. This has implications for the ability of the respondents to read and understand the issues investigated by the questionnaire. With regard to the duration of work of the respondents in the Assembly, the following responses were elicited: about 74.3% (n=52) have been working with their Assemblies for between 1-5 years; 5.7% (n=4) had 6-10 years of working experience in the Assemblies; 5.7% (n=4) had between 11-15 job tenure; and the remaining minority, 14% (n=10) had 16 years or more job tenure.

## Human Resource Management Practices in the Internal Audit Unit of MMDAs

The first objective of the study was to examine the human resource management practice of the Internal Audit Unit in the MMDAs. Means and standard deviations were used to present the findings. The findings for this objective are summarized in Table 4 below.

**Table 4: Human resource management practices of assembly**

	N	Mean	Stdev
The Internal audit's core competencies are directly related to its mission, role and scope of work	70	4.17	0.74
The Internal audit's staffing strategy reflects its mission, role and required competencies	70	3.97	0.85
The unit has appropriately qualified staff	70	3.97	0.56
The Assembly has well-established and functional Audit Report Implementation Committee (ARIC)	70	3.91	1.03
Staff have relevant skills and experience in risk identification and planning methodology to deliver a high quality audit services	70	3.86	0.87
The human resource strategy is sufficiently flexible to respond to changes in demand	70	3.80	0.79
Internal auditors sometimes subject themselves to external review	70	3.80	0.96
The Internal Audit unit has sufficient number of staff	70	3.66	0.89
In-service training is regularly organized for auditors whenever required	70	3.60	0.81

Quality assurance and continuous improvement programs exist for the auditors	70	3.34	1.02
The conditions of service is sufficient enough to allow the Assembly to attract and retain auditors with the requisite professional skills and qualifications	70	3.11	1.15
<b>Overall strength of human resource management capacity</b>	<b>70</b>	<b>3.74</b>	

Source: Field Survey data, 2013      Scale: = strongly disagree, 2=Disagree 3=Neutral, 4=Agree, 5= strongly agree

The findings showed that the respondents 'agreed' (Mean: 3.50-5.00) with the following assertions regarding the HRM practices in the Internal Audit Units of the Assemblies. That is, the respondents agreed that the internal audit's core competencies are directly related to its mission, role and scope of work (Mean=4.17; Stdev=0.74); the internal audit's staffing strategy reflects its mission, role and required competencies (Mean=3.97; Stdev=0.85); the internal audit units have appropriate qualified staff (Mean=3.97; Stdev=0.56); the Assemblies have well-established and functional Audit Report Implementation Committee (ARIC) (Mean=3.91; Stdev=1.03); staff in the Internal Audit Units have relevant skills and experience in risk identification and planning methodology to deliver high quality audit services (Mean=3.86; Stdev=0.87); the human resource management strategies in the Assemblies are sufficiently flexible to respond to changes in demand (Mean=3.80; Stdev=0.79); internal auditors sometimes subject themselves to external review (Mean=3.80; Stdev=0.96); the Internal Audit Units have sufficient number of staff

(Mean=3.66; Stdev=0.89); and that in-service training is regularly organized for internal auditors whenever required (Mean=3.60; Stdev=0.81).

However, respondents could not agree or disagree (neutral; Mean: 2.50-3.49) whether or not: Quality assurance and continuous improvement programs exist for the auditors (Mean=3.34; Stdev=1.02); and that the conditions of service is sufficient enough to allow the Assembly to attract and retain auditors with the requisite professional skills and qualifications (Mean=3.11; Stdev=1.15).

In conclusion, the study indices that the Assemblies have instituted strong human resource management policies and practices in the Internal Audit Units, to ensure effective function of the internal audit. However, the study found that there is not enough quality assurance; continuous improvement programs for the auditors; and adequate or sufficient conditions of services to motivate the internal auditors to perform their functions.

### Internal Audit Independence

The second objective of the study was to determine the level of independence of the internal Audits Units of the MMDAs. Concerning the internal audit independence, the respondents again agreed (Mean; 3.50-5.00) that the internal audit function is strategically positioned to contribute to

organizational strategy performance (Mean=4.20; Stdev=0.64); the internal auditors in the Assemblies have the ability to report to relevant government authority if it is found out that official abuse of public funds has taken place (Mean=4.00; Stdev=0.75); the Internal Audit Units in the Assemblies are

independent (Mean=3.92; Stdev=0.99); the Internal Audit Units are free to choose any transaction or area of interest for audit (Mean=3.90; Stdev= 1.01); and the mission and role of internal audit function are defined within a wider governance framework and are effectively communicated (Mean=3.85; Stdev=0.69).

However, the respondents were not sure, that is, neutral (Mean; 2.50-3.49) whether or not a rule exists to ensure that auditors cannot audit

operations for which they were previously responsible or connected (Mean=3.35; Stdev=1.21).

The overall mean response for all items was found to be 3.87. This implies that the internal auditor perceived that they were independent in the execution of their functions. Hence, the internal auditors in the Assemblies performed their functions devoid of internal and external interference.

**Table 5: Internal Audit Independence**

<b>Chronbach alpha=0.724</b>	<b>N</b>	<b>Mean</b>	<b>Stdev</b>
The internal audit function is strategically positioned to contribute to organizational strategy performance	70	4.20	0.64
The audit function in your organization has the ability to report to relevant government authority if it is found that official abuse of public funds has taken place	70	4.00	0.75
Overall, the Internal Audit Unit in your Assembly is independent	70	3.92	0.99
The internal audit is free to choose any transaction or area of interest for audit	70	3.90	1.01
The mission and role of internal audit function are defined within a wider governance framework and are effectively communicated	70	3.85	0.69
A rule exists to ensure that auditors cannot audit operations for which they were previously responsible	70	3.35	1.21
<b>Overall mean</b>	<b>70</b>	<b>3.87</b>	

Source: Field Survey data, 2013

Scale: = strongly disagree, 2=Disagree 3=Neutral, 4=Agree, 5= strongly agree

## Effectiveness of Internal Audit Functions in MMDAs

The third objective of the study was to examine the quality (effectiveness) of internal audit function in MMDAs. The findings for this objective is presented in Table 6. The finding shows that the respondents generally indicated that the internal auditors in organizations are 'effective' (Mean: 3.50-5.00) in executing their functions. They noted that the internal auditors were effective in providing the external

auditor, the audit committee, and management with the necessary information (Mean=4.21; Stdev=0.52); evaluating the internal control systems to ensure that they are working properly (Mean=4.10; Stdev=0.38); ensuring compliance of the Assemblies to laid-down rules and regulations (Mean=4.10; Stdev=0.60); checking accounting records for fraud and irregularities (Mean=4.05;

Stdev=0.46); examining procedures governing utilization of resources in the organization (Mean =4.02; Stdev=0.710); in the application of generally accepted accounting principles (Mean=4.02; Stdev=0.59); ensuring accurate, comprehensive, and temporary financial reporting (Mean=4.02; Stdev= 0.63); overall effectiveness of the internal audit in performing its role in the organization (Mean=3.97; Stdev=0.36); adding value to the organization by ensuring financial accountability (Mean=3.94; Stdev

=0.56); focusing on performance audit and adoption of audit approach on the basis of audit risk (Mean=3.89; Stdev= 0.55); facilitating risk management practices (Mean=3.89; Stdev=0.72); and in reporting on systems of internal control (SIC) (Mean=3.84; Stdev=0.63).

The overall mean was found to be 4.01. The implication is that the internal auditors were perceived to be effective in the performance of their functions.

**Table 6: Effectiveness of internal audit functions**

	N	Mean	Stdev
Providing the external auditor, the audit committee, and management with the necessary information.	70	4.21	0.52
Evaluating the internal control systems to ensure they are working properly	70	4.10	0.38
Ensuring compliance of the organizations to laid down rules and regulations	70	4.10	0.60
Checking accounting records for fraud and irregularities	70	4.05	0.46
Examining procedures governing utilization of resources in the organizations	70	4.02	0.71
Applying generally accepted accounting principles.	70	4.02	0.59
Ensuring accurate, comprehensive, and temporary financial reporting.	70	4.02	0.63
Overall effectiveness of the internal audit in performing its role in the organization	70	3.97	0.36
Adding value to the organisations by ensuring financial accountability	70	3.94	0.56
Focusing on performance audit and adopting the audit approach on the basis of audit risk.	70	3.89	0.55
Facilitating risk management practices	70	3.89	0.72
Reporting on systems of internal control (SIC)	70	3.84	0.63
<b>Overall effectiveness on internal audit functions</b>	<b>70</b>	<b>4.01</b>	

Source: Field Survey data, 2013

Scale: 1= "Very ineffective"; 2= "Ineffective"; 3 = "Neutral"; 4= "Effective"; 5= "Very effective".

## CONCLUSIONS

Based on the findings of the study, it can be concluded that:

- The Assemblies have strong human resource management practices in the Internal Audit Units to ensure effective function of the internal audit except that there is weak quality assurance, weak continuous improvement programs for the auditors, and that conditions of services are not sufficient to adequately motivate the internal auditors in the performance of their functions.
- The internal auditors in the Assemblies perform their functions devoid of internal and external interferences. The internal auditors are independent in the execution of their functions.
- The internal auditors in the Assemblies are effective in the performance of their functions.
- The internal auditors are capable of performing their functions effectively and therefore relevant to the Assemblies.

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