

Examining the Challenges Facing the Internal Audit Unit in Financial Administration of the MDAs in Volta Region

Frank Kofi Asare

Internal Auditor | Akatsi College of Education

Email: frankas211@yahoo.com

Abstract

The Internal Audit unit in the MDAs basically forms an integral part of the internal control mechanism of the assembly. The internal audit unit provides reasonable assurance to the assembly that financial and non-financial controls are effectively in place, policies, regulations and laws are adequate, and are complied with through independent reviews of various activities (Internal Audit Act, 2003). To ensure effective financial administrations at the assembly, the Internal Audit unit is to review all payments to be made by the assembly, review all revenues receipted before and after they are paid into the bank. The unit also inspects and verifies all items received into stores as against specification and established standards and other personal related issues (Financial Administration Act, 2003). The internal audit unit is supposed to ensure strong control over collection and recording of Internally Generated Fund (IGF); regular banking of revenue daily; ensure correct statement of revenue; prepare bank reconciliation statements monthly; inspect payment vouchers adequately acquitted and properly filed, etc. (Financial Administrations Act, 2003). Unfortunately, these seem not happening; even the Public Accounts Committee (PAC) sitting in Volta Region in 2012 revealed that 48.4 million Ghana cedis was lost by the state from the statutory funds, including the district assemblies common fund, through the MDAs across the country during the 2010, 2011 and 2012 financial years. This basically showed financial irregularities in almost all the MDAs in Ghana. What makes it even more alarming is the fact that the internal audit unit is supposed to clean up the system before the external auditors come in. However, few research works have been conducted in the public sector, including Woodworth and Player (2003). There is a gap created because no one has researched into this area. This has motivated the researcher to find out the operations of internal audit units in ensuring effective and efficient financial administration in some selected MDAs in Volta region.

Keywords: *Audit Operation, Internal Audit Units, Financial Administration, Auditing Practices*

1.0 INTRODUCTION

The views, thoughts and perceptions of various scholars on the operations of the internal audit, definitions of financial administrations as well as the best practices in the field of internal auditing activities are critically examined. Again writers' view on the challenges facing internal audit unit of MDAs carefully scrutinized and various suggestions advanced by the writers for the improvement of the operations of the activities of the internal audit unit at the MDAs are critically looked at.

1.1 Concept of Audit, Auditing and Internal Auditing

The demand for internal auditing is basically sourced in the need to have some means of independent verification to reduce record-keeping errors, asset misappropriation and fraud within business and non-business organisations. The origin of auditing goes back to times scarcely less remote than that of accounting. Whenever the advance of civilization brought about the necessity of one man being in trusted to some extent with the property of another, the advisability of some kind of check upon the fidelity of the former would become apparent (Richard Brown (1905, quoted in Mautz & Sharaf, 1961). As far back as 4000 B.C., historians believe, formal record-keeping systems were first instituted by organized businesses and governments in the Near East to allay their concerns about correctly accounting for receipts and disbursements and collecting taxes. Audit is the independent examination of financial statements or related financial statement of an entity, whether profit-oriented or not, and irrespective of its size, or legal form, when such an examination is to be conducted with the view to expressing an opinion thereon (Ghana National Accounting Standards) (GNAS). Auditing is a process carried out by an appointed qualified person or body, whereby the records and financial statement of an entity are subjected to

independent examination in such detail as will enable the auditor form an opinion as to the truth and fairness of the financial statement.

Millichamp (2002) defined auditing as an activity carried on by the auditor when he verifies accounting data, determines the accuracy and reliability of accounting statement, and reports on the truth and fairness of the financial statement. Opinion is thus the expression of the auditor's professional viewpoint about the financial statement after exercising his judgment based on his audit evidence gathered. Financial statements are the underlying records sources documents, books of prime entry, ledgers, income statement, balance sheet, cash flow statement, directors and management report and minutes of directors and shareholders.

The Institute of Internal Auditors (IIA) defines internal auditing as "an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations" (Nagy and Cenker, 2002, p.1). 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. This definition actually seeks to demonstrate the depth and breadth of the internal audit activity within an institution as against the previous orientation of reviewing payment transactions over the years. Modern internal audit covers (or should cover) all activities of the organisation. Therefore, the scope of internal audit is no longer restricted to the processes and systems in the accounts and finance function. Despite the increasing focus on internal audit, there has been little research on the benefits and importance of this function. Studies have used an agency cost framework to illustrate the value relevance of the internal audit function (e.g. Carey et al. 2000; Carcello et al. 2005). While the variables of size, debt or agency are not associated with the presence of an internal audit function in Australian family owned companies, internal and external audit are used as monitoring substitutes by these companies (Carey et al. 2000).

However recent US study examined the size of internal audit budgets and found that they were positively related to company size; leverage; financial, service, or utility industries, inventory, operating flows, and audit committee review of the internal audit budget (Carcello et al. 2005). Results showed that internal audit budgets were negatively related to the percentage of internal auditing that was outsourced. The overall conclusion was that companies facing higher risk will increase their organizational monitoring through internal audit, providing evidence of the importance of the internal audit function. For example, Gramling et al. (2004) performed a literature review on the role of internal auditing in corporate governance. This review found that the role of an internal audit function in corporate governance has been analysed using the external auditors' evaluation of its quality, determinants of its reliance decision, the extent and nature of its work relied on by the external auditor and other aspects of the external audit. Examination of this literature review shows that the majority of the research on internal audit has been related to the perceptions of the external auditor and whether the external auditor utilizes the internal auditor's work.

Another way of evaluating the work of internal auditors is to examine how well they detect errors within an organization and there has been limited research on this topic. One study on this topic found the number and magnitude of errors requiring adjustment by the external auditor to be substantially lower for entities that had an internal audit department compared to those that did not have an internal audit department (Wallace and Kreutzfeldt 1991). More recently, the role of auditors in detecting fraud as well as errors has received greater emphasis. In Australia additional requirements were imposed on external auditors to consider the possibility of fraud when conducting an audit under AUS 210 (Australian Accounting Research Foundation [AARF] 2004) and more recently ASA 240 (AUASB 2006). It is reasonable to expect that this increased emphasis on fraud awareness and detection affected the internal auditors' duties as well. Even back in the late 1990s, there is evidence that this was occurring in Australia as a survey found that fraud detection was being included in internal audit work (Birkett et al. 1999).

Some studies have evaluated the ability of internal auditors to perform fraud-related work. External and internal auditors achieved a high level of consensus in their financial statement fraud risk ratings suggesting that internal auditors are as aware as external auditors of where fraud is likely to be detected (Apostolou and Strawser 1990). When considering fraudulent financial reporting, internal auditors think that fraud is the reason for an unexpected difference in income when (1) income is greater than expected and (2) when debt covenants are restrictive, conditioned on income being greater than

expected (Church et al. 2001). The focus of these studies has been financial statement fraud. The nature of the internal audit function is also an important consideration that may potentially affect its value to an organization. Companies may use their own staff (in source), use an external firm (outsource) or a combination of the two. While outsourcing the internal audit function does not significantly affect users' perceptions of auditor independence or financial statement reliability (Lowe et al. 1999) or their perception of protection from financial statement fraud (James 2003), companies that decide to outsource perceive that external providers are technically more competent (Carey et al. 2006). However, a limitation with these prior studies is that they were performed by measuring perceptions not actual performance. Invariably many organizations make decisions about whether to in source or outsource their internal audit function; the quality of performance of these respective functions is an issue that warrants more examination than just "perceptions".

2.0 LITERATURE REVIEW

2.1 Financial Administration

The efficiency of operating system and maintenance systems depends upon the effectiveness of financial system as every administration act may have financial implications. Financial administration consists of two words „finance“ and „administration“. The word administration refers to organization and management of collective human efforts in the pursuit of a conscious objective while finance refers to monetary resources. This means financial administration refers to that set of activities which are related to making available money to the branches of the office, or an organization to enable it to carry out its objectives all depends on the availability of funds with which financial administration is concerned. Other theorists are also of the view that financial administration is of three parts. They are public revenue, public expenditure, and public debt. Since financial administration concerns itself with public finances and deals with the principles and practices pertinent to the proper and efficient administration of the state finances.

Financial Administration Regulations, 2004 For Financial Administration ACT 2003, ACT 654 specifies the general rule for the management of public funds, and Any public officer who responsible for the conduct of financial business on behalf of the Government of Ghana, the receipt, custody and disbursement of public and trust moneys, or for the custody, care and use of public stores Shall keep proper records of all transactions and shall produce records of the transactions for inspection when called upon to do so by the Minister, the Auditor-General, the Controller and Accountant-General or any officers authorised by them.

2.2 Best Practices in Internal Auditing

The Cambridge dictionary defines best practice as a working method (or set of working methods), which is officially accepted as being the best to use in a particular business or industry. These methods or best practices are usually described formally or in detail. Therefore, best practices are those generally understood operational characteristics of organizations, or procedures that have proved to be successful in practice. The institute of internal auditors, U.S.A, (IIAs), has identified key elements of an effective public sector audit activity which can serve as a starting point to developing best practices for internal audit in the public sector. The IIAs professional guidance document on the Role of Auditing in Public Sector Governance, states that Auditors perform an especially important function in those aspects of governance that are crucial in the public sector for promoting credibility, equity, and appropriate behavior of government officials, while reducing the risk of public corruption. The IIA guides the international profession of internal audit with not only Standards, but numerous additional resources to assist internal auditors in implementing best practices in our ever-changing and growing field. These resources, including advisories, guides, papers, and tools are the best practices including.

3.0 METHODOLOGY

Methodology of every research is vital if the validity and reliability of the results of the study are to be attained and qualify for replication and generalization. The methodology assumed for this study is scientific as the process is systematic and unbiased. This is to ensure that relevant and reliable data are gathered, hence, appropriate statistical techniques applied in order to control potential statistical errors and thereby arrive at accurate and valid conclusions. This chapter, therefore, reviews the source of data,

definition of target population, procedures for data collection, presentation and the model used to answer research questions in order to achieve the set objectives.

3.1 Research Design

Research methodology defines the systematic and scientific procedures used to arrive at the result and findings from a study against which claims for knowledge are evaluated (Cooper and Schindler, 2006; Saunders et al). A methodology is therefore shaped by the perspectives the research chooses to approach a study. The research design is influenced by the research paradigm. Neuman (2006) defines research paradigm as a general organising framework for theory and research that includes basic assumptions, key issues, models of quality research and methods for seeking answers. In terms of research paradigm, a research can be qualitative or quantitative.

Cooper and Schindler (2006) describes quantitative research as involving measurement of variables and the delivery of findings in numerical form in which research findings are described by texts of significance, confidence intervals and mathematically demonstrated relationships while qualitative research is a paradigm which is conducted to find out what people do, think, know and feel. Such a study aims at understanding and explaining a phenomenon that focuses on „why“ questions. This study is based on only qualitative paradigm. On the one hand, words will be used in identifying the operations of the internal audit unit in financial administration of MDAs, assessing the extent the internal audit conforms to the best auditing practices and examining challenges facing the internal audit unit. Structured questions and an interview guide are used as to solicit for data in order to achieve the objectives.

3.2 Study Population and Sample Size

A sample is defined by Tailor (2005) as a subset of a population or universe. However, a word of caution is in order here as population is often taken by many to refer to people only. Population, as Walliman (2011) puts it, does not necessarily mean a number of people. It can also refer to total quantity of the things or cases which are the subject of a study. Robson (1993) also talks about non-people-related sampling like where and when interviews take place. However, he stresses that particular attention needs to be given to the selection of people sample. Research inputs were taken from people whose works involved the implementation of audit functions in various MDAs towards proper financial administration. The population involved the internal audit staffs in Ho Municipality, Sogakope District Assemblies, Ketu-South District Assemblies, Agortime Ziope District Assemblies, and Nkwanta District Assemblies who are involved in helping the internal audit unit to implement in proper financial administration of MDAs in Ghana. In all sample sizes of Five (5) respondents were selected, mainly the head of Internal Audit units in the Municipal/District Assemblies on the bases that they stand the chance of controlling all the sub-sections in the unit and their knowledge cut across all the sections. The information was gathered by the researcher himself directly from the respondents. In this regard, the researcher used designed questionnaire to collect the requisite data from the respondents.

3.3 Sampling Technique

In selecting the sampling size for the study, the purposive or judgmental sampling technique was used. Purposive or judgmental sampling enables the researcher to use his judgment to select cases that will best enable him answer research questions and to meet the study objectives. This form of sampling is often used when working with very small samples such as in case study research and when you wish to select cases that are particularly informative (Neuman, 2005). However, purposive sampling technique was used in selecting five (5) heads of the internal audit unit because of the crucial role they play at the unit within the assemblies and because they stand the chance of providing the data necessary for the research. The heads of the internal audit units were used to enable the researcher gather unadulterated data on the bases that they stand the chance of controlling all the sub-sections in the unit and their knowledge cut across all the sections.

3.4 Data Sources and Data Collection

In the quest to achieving irrefutable results, primary data was collected through the use of interviews and questionnaires. Data from the respondents was also collected through well-structured questionnaire which contains definite items arranged in a definite order. The questionnaire was designed in such a way that it answers listed objectives. It also contains both closed and open-ended questions to give respondents the opportunity to express themselves freely where applicable. These techniques are chosen in order to;

- Gather current information
- Ensure consistency in the questions that various respondents will respond to
- Ensure reliability and control the method of data collection
- Facilitate the analysis of data gathered. This is due to the fact that different respondents will be responding to basically the same set of questions

3.5 Analysis of Results and Discussion

Stake (1994) explained that in analysing a research data, the main task is to understand the case through teasing out relationships, probing issues and aggregating the data categorically. The response of the heads of the internal audit units were analysed in line with the research questions for which the instruments were designed. The information obtained was edited, and summarized to make it more meaningful. Editing was done to reduce bias, increase precision and improve consistency. Coding was done by assigning number to questions or data items to ease reference to questions. There was purposeful examination and interpretation of data to answer research questions and exploration of data in the hope that new insights may emerge.

3.6 Reliability and Validity of Results

In order to strengthen the reliability of the study, the researcher undertook the following activities. In the first place, the researcher ensured that the objectives set are in conformity with the research questions and the literature reviewed covered the objectives. Secondly, special interviews were granted to respondents who had sufficient knowledge on the topic and the area of study using interview guide. In addition to the above, before interviews were conducted, the researcher held meetings with respondents (unit heads) to establish good human relations with them to enable them feel more comfortable in giving independent and accurate information which can be relied on.

4.0 DATA ANALYSIS & DISCUSSION

In achieving the objectives of the study, data was collected and analysed. Various heads of the internal audit unit were interviewed using the prepared interview guide in line with the research objectives and questions. The outcome centred in three areas: operation of the internal audit unit in financial administration, conformity to the best practices of auditing and challenges facing the internal audit unit in financial administration of some selected MDAs in the Volta region.

4.1 Data Presentation and Analysis

4.1.1 General Information about the Internal Audit Units at the MDAs

The heads of internal audit unit at Ho Municipality, Sogakope District Assemblies, Akatsi- South District Assemblies, Agortime Ziope District Assemblies, and Nkwanta District Assemblies were interviewed. They all confirmed that they have worked for four (4), five (5), three (3), two (2) Eight (8) years with the assembly respectively. They are all Bachelor Degree holders and one female. In their submission, they all admitted that the personnel at the units are not enough for the unit considering the number of departments and transactions occurring at the assemblies. According to the internal auditors, the Controller and Accountant General's Department, Local Government Services and the Internal Audit Agency are responsible for employing internal auditors and the minimum qualification is degree in business administration (Accounting) or other professional qualification in Accounting.

4.2 Challenges Facing the Internal Audit Units at the MDAs

Based on the interview conducted on the problems facing the audit unit, the heads outlined the following as the major challenges facing them: Inadequate staffs, Lack of logistics in undertaken the

internal audit process, Slow implementation of audit recommendations, and Restricted access to records. Due to inadequate staff syndrome in most of the districts, they are left with the option performing the activities they can and entrust the rest of the activities with the national services personnel who lack the requisite skills and knowledge for the audit activities which is against their code of ethics in area of competency.

The heads of the internal audit suggest that the coordinating directors should provide resources for the unit to enhance their audit activities. They therefore suggested prompt implementation of audit recommendation to prevent future errors. The heads recommended the IAA to train the internal auditors quarterly instead of the yearly training programmes. The heads were of the view that if the above recommendations are taken it would help coordinating directors in achieving the goals of the assemblies, which they enumerated as follows: Achievement of maximum use of assemblies' resources, Detection, prevention, correction or minimization of errors and fraud and Improvement in development in assemblies.

4.3. Analysis and Discussions

4.3.1 Challenges Facing the Internal Auditing Units at the MDAs

From the research conducted, it can be realized that the problems facing the internal audit units selected for the study cut across the entire units. It was found out that these problems affect the units' ability to deliver quality auditing to ensure very sound and smooth development at the local levels. The evidence gathered about the challenges facing the units include, inadequate staffs, lack of logistics in audit process, slow implementation of audit recommendations and restricted access to records. However, these problems emanating from the research are not farfetched from research conducted by Auditor General of Malaysia (audit standards not up to marks"2007), Ali, et al (2007) as inadequate audit personal and the audit personal's lack of proper skills and competency. Again the results were also in line with Halima et al (2009), who have also ranked ten main problems faced by the internal audit; lack of audit staff, lack of support or commitment from top management, lack of cooperation from auditor, lack of training, lack of independence, staff lack of competency/knowledge on the auditing techniques, action on audit findings and recommendations not taken by auditee/management, lack of experience staff. Inadequate audit staff is ranked first and is considered as major setback that can restrain the effectiveness of internal audit function in the public sector. The same results were also revealed by Brierley, et al (2001) in the Sudanese public sector internal auditing and Mihret and Yismaw (2007). These problems affect internal audit units' ability to ensure quality auditing at MMDAs in Ghana hence financial irregularities in most MDAs in Ghana.

5.0 CONCLUSION

5.1 Summary of Findings

Evidence gathered from the study proved that the assemblies carried out an assurance services as an internal audit activity and practices monitoring of controls as a component of internal control. There are financial laws, policies and procedures that monitored the controls in the assemblies. Internal controls are monitored through pre and post auditing, issues warrants and budget approval, preparation and submission of monthly statement and projects inspections. This helps in safeguarding and adequately managing the assembly's human and financial resources. Findings from the analysis show that:

- There is a moderate level of independence of the internal audit unit of the assemblies
- Recruitment of internal auditors are in the hands of Local Government Services, IAA, and CAGD
- Internal audit units are not fully given access to all the necessary information, records and employees to help them make an informed judgment.
- Internal audit units receive some support from stakeholders in areas of training, and logistics
- ARICs response to audit findings and recommendations is very slow in the area of implementation.
- There are mechanisms for ensuring that the right things are done always pertaining to the units' submissions.

5.2 Conclusion

In recent times, a lot of attention has been devoted to internal auditing in the public sector management by local governments to spearhead the implementation of the country's development agenda. The rationale is an increasing mistrust that exists between the government and the citizens as a result of mismanagement through misapplication of Assemblies' resources. To restrain this, there is the need for effective internal audit system at the assemblies to ensure effective and efficient management of resources. Internal audit's role is to evaluate the effectiveness and appropriateness of those systems and processes as to whether they are related to legal and regulatory compliance. The units perform these functions by working with Co-ordinating Directors and ARIC to help understand the consequences of risk and its effectiveness.

The unit's activities at the selected MDAs were effective based on the empirical research carried out. The assurance services provided by the assemblies are intended to give Co-ordinating directors the confidence that the internal controls are efficient in detecting, preventing, or correcting frauds and errors. Additionally, Coordinating Directors are also assured of the effective use of resources which had brought about development to the Assemblies. Moreover, challenges such as inadequate staffs, lack of logistics in undertaken the internal audit process, slow implementation of audit recommendations and restricted access to records, have affected the effective and efficient discharge of internal audit function. Furthermore, it can be concluded that the assemblies carried out audit in compliance with international standards of auditing and best practices to avoid regulatory confrontations.

Therefore, these activities are undertaken with the aim of strengthening the assemblies in carrying out the activities in achieving its objectives. On the whole, the study showed that the internal audits in the selected assemblies are moderately effective. The researcher could therefore conclude that the factors enumerated as challenges affect the overall effectiveness of the internal audit units.

5.3 Recommendations

The following recommendations are made based on the findings of the study so that when properly adopted could improve the internal audit activities in the MDAs in the Volta region to ensure judicious use of the Assemblies' resources.

Provision of Adequate Personnel: Given the workload that the internal audit units at the assemblies are supposed to handle the Local Government Services and the IAA should provide qualified personnel to handle the internal audit of the assemblies.

Immediate Implementation of Audit Recommendations: ARIC should not be reluctant but rather swift in implementing the recommendations through review and examinations of financial statement and other necessary books of accounts by internal audit unit. The Coordinating Directors should be proactive over sensitive matters revealed by internal auditors. This will help minimise risk at the initial stage.

Access to Records: Researcher recommends that for the assemblies to realize the full benefit with respect to the efficiency and effectiveness of the internal audit unit, it must consider providing all the needed logistics to enhance their operations. The instruments that ensure internal auditors access all records at all times, should be enforced to help achieve total development at the local level.

Independent: The internal audit unit should be given the needed authority to conduct audit activities. Their work should under no circumstances be influenced by Municipal and District Executive Officers. They should be given the level of independent in their audit processes. The Internal Audit Units should be allowed to audit all parts of the assemblies, they should have full access to all records and document which the units find it necessary to help them conduct internal audits to minimize risk that impede total development at the assemblies. The internal auditors must be fully allowed to audit all records that are necessary to enhance their audit activities. They should not at any circumstance be restricted to some records they are needed to conduct audit assignment.

Provision of Logistics: For the assemblies to realize the full benefits with respect to the efficiency and effectiveness of the Internal Audit Units, they must consider embarking on providing all the needed logistics to enhance their operations. Offices furniture and all the other equipment should be provided to help the units conduct internal audit functions in compliance with the international standards.

Quality Assurance Audit: Recently, internal auditing has changed from checking high proportion of routine transactions to the area of concentrating much more on making a detailed examination of

accounting systems, controls and to perform test on quality rather than quantity basis. Internal auditors should concentrate on few transactions to examine the accuracy of the system.

Valued Added Auditing: The researcher recommends internal auditors at the MDAs to put more emphasis on analytical auditing that involves process audits, risk and/or control assessments, and other forms of effectiveness assessments. Generally, this trend is called value-added auditing. Internal auditors should design their audit process to provide independent and objective operational analysis to examine every function, process and activity of the assembly that would help achieve their business strategies and objectives. They should be involved in a systematic and disciplined approach in their assessment to improve the effectiveness of risk management, control and governance processes at the assemblies that add value to the assemblies' operations.

Audit Automation: The importance of audit automation and the utilization of IT in modern audits have grown significantly in recent years due to both technological developments and changing regulatory environment. Thus, it comes as no surprise that many internal auditors are now at the forefront of deploying such modern audit automation technologies as continuous auditing.

It is recommended that internal audit units at the MDAs undertake audit automation systematically in their audit assignment. The Units have to incorporate reengineering in the more limited sense of first transforming manual audit processes to facilitate their automation. The researcher is not suggesting „the throw away the manual rule book sort“, but in a form of hybrid approach which is more manageable and marketable from a change management perspective. It can also allow the auditors to increase the scope of the audit and utilize some additional audit procedures for higher coverage of various risk areas.

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