

# Assessing the Operations of the Internal Audit Units in Financial Administration of some Selected Municipal and District Assemblies (MDAs) In Volta Region

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## Abstract

*This study is to assess the operations of internal audit unit in financial administration of some selected MDAs in Volta region with the aim of improving efficiency in the performance of the MDAs. This was achieved by identifying the operations of the internal audit unit (IAU), examining the challenges facing the IAU and assessing the extent to which the IAU of the MDAs conform to the best practices. This study was based on only qualitative paradigm. Words were used in identifying the operations, the extent to which internal audit conforms to the best auditing practices and the challenges facing the internal audit unit. Well-structured questionnaire (closed ended question and open-ended questions) were used to solicit for data. Purposive sampling technique was employed especially in selecting the five (5) Heads of the internal audit unit. Major findings emanating from the study are: inadequate audit staff, inadequate logistics in undertaken the internal audit process, slow implementation of audit recommendations and restricted access to records. It was recommended that Internal Audit Agency should recruit more personnel for MDAs audit staff, Audit Report Implementation Committee (ARIC) should attach sense of urgency to all report issue and provide the logistics needed to enhance best audit practices in the region.*

*Keywords: Public Perception, Audit Expectation Gap, Auditor Perception, Public Financial Administration, External Auditors Duties and Roles*

## 1.0 INTRODUCTION

Besides the Constitution of Republic of Ghana, the principal legislation that gives meaning and defines the scope of decentralization and its companion local government reform is Act 462 of 1993. The objective of this Act was to set out the District Assemblies' Common Fund Act 455 also of 1993 and the Local Government Service Act 656 of 2003. Few years down the line, district assemblies have become accepted by ordinary people as the institution to look up to for most of their basic needs. Indeed, the expectation has been so high that only a few districts, if any, appear to be meeting the people's aspirations and expectations (Woodworth and Player 2003). Though much has been achieved in attempts to decentralize state machinery, much more remains to be done, particularly in matching the responsibilities entrusted to district assemblies with resources required to achieve the responsibilities. As stated in the Constitution of the Republic of Ghana, Parliament shall annually make provision for the allocation of not less than 7.5 percent of the total revenue of Ghana to the District Assemblies for development and the amount is paid into the District Assemblies Common Fund in quarterly installments.

The accrued monies are distributed among all the District Assemblies on the basis of a formula approved by Parliament. The Assembly depends solely on District Assembly Common Fund for its developmental projects as well as the internally generated funds collected to meet its recurrent expenditure. The sole responsibility of the Assembly is basically the efficient utilization of these funds to ensure total development at the assembly level, hence, the need for proper financial administration Act which is to regulate the financial management of the public sector, prescribe the responsibilities of persons entrusted with financial management in the government, ensure the effective and efficient management of state revenue, expenditure, assets, liabilities, resources of the government, the Consolidated Fund and other public funds and to provide for matters related to these (Act, 2003). It equally involves the arrangement of flow of funds as well as to regulating mechanisms and processes which ensure proper and productive utilizations of these funds.

Financial administrators are basically responsible for ensuring adequate financial backing for running public organisations so as to achieve efficient implementation of public policy. The participants of this system are considered as financial managers and discharge managerial functions of financial nature.

Government organisations which deal with the following four functions constitute proper financial administration. These include proper collection, perseverance, and distribution of public fund; effective co-ordination of public revenues, and expenditure; proper management of credit operations on behalf of the state; and the general controls of financial affairs of the state. The government of Ghana has taken proactive measures in establishing financial administrations act to ensure effective and efficient use of the state funds. The office of the district assembly shall be responsible for effective budgeting, stores and budgeting rules and guidelines; initiation, execution, monitoring and evaluation of development (Civil Service law, 1993, PNDCL 237). Local Government Act, 1993 (ACT 462) clearly stated that every district assembly should keep proper books of account, open and maintain a bank account for all revenues and other monies raised or received. However, this has given the assemblies greater authority for exploring ways and means to generate resources to meet the increasing public expenditure of the assembly in influencing the socio-economic life of the people (Woodworth and Player, 2003).

Internal audit is described as an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes (Institute of Internal Auditors, IIA). Internal audit's role is primarily one of providing independent assurance over the internal controls and risk management framework of the council (Guidelines under section 23A of the Local Government Act 1993, September 2010). Auditing at the Municipal and District Assemblies (MDAs) is one component of financial administration which examines and evaluates the financial and the operational activities of Assembly to achieve developmental needs. The internal auditing profession evolved steadily with the progress of management science after World War II. It is conceptually similar in many ways to financial auditing by public accounting firms, quality assurance and banking compliance activities. Much of the theory underlying internal auditing is derived from management consulting and public accounting professions (Sarbanes-Oxley Act (002).

The Internal Audit Act, Act 462, section 120 states that every district assembly shall have an internal audit unit which clearly indicates that the establishment of Act emphasizes the important role the unit plays in financial administration at the district level. The units at the district assemblies are therefore entrusted to strengthen equitable distribution of resources, and effective and efficient utilization of resources at the assemblies (Internal Audit Agency Act, 2003). To ensure effective financial administration at the assembly level, internal audit unit ensures proper financial controls at the assembly by maintaining up to date accounting records which are balanced properly. The unit ensures systematic periodic financial reporting and forecasting, money received are banked intact and daily, cash received over the counter is controlled by cash register or other similar means. The unit also checks that all payments are made by cheques and are signed only when completed by appropriate authorities with supporting documentations. The unit reviews bank reconciliation statements to ensure accuracy and maintain petty cash on an imprest system basis. However, the internal audit unit ensures that detailed records are maintained of the assets owned by the assembly, and are authorized for disposal only by executive officers. The internal audit unit is entrusted to ensure that stock of the assembly is well controlled and physically counted periodically (Financial Administration Act, 2003).

When the internal audit unit has identified potential issues, it should issue early warning alerts by raising red flags to enable management deal with the issues in a timely manner and to issue reports on the extent of compliance on the Assembly's policies, procedures, regulations and assess implementation and compliance thereon, review organisational and procedural changes introduced by Assembly to assess availability of controls therein and ascertain their feasibility for the Assembly. The internal audit unit tests and evaluates liabilities, and ensures the reliability of financial information (Internal Audit Agency Act, 2003). The concept of planned development has enabled public administrators to play an active and dynamic role in the formulation and implementation of development schemes and projects. The time and the cost of implementing these projects have become critically important. The articulation of financial administration has shifted from one of controlling the disbursement of funds to one of management of various development projects and programmes. There is a tremendous pressure on the modern government to increase their expenditure outlays to meet the ever expanding ambitions and demands of the people of Ghana.

However, taxpayers are unable or unwilling to bear additional tax burdens. In this case, the need has arisen for a careful prioritization of public expenditure and efficient utilization of limited resources allocated to the MDAs, hence the need to institute proper financial administrations at the district level to eliminating unwanted expenditure and ensuring optimization of output from the limited resources of the assembly which depends on the effort put in place by the internal audit unit at the local level (Woodworth and Player, 2003). This study therefore assesses the operations of the internal audit unit to ensure effective and efficient financial administration of some selected MDAs in the Volta Region to increase development at the local level.

### 1.1 Problem Statement

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 received 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.

### 1.2 Objectives of the Study

The main objective of the study is to assess the operations of internal audit unit in financial administration of MDAs in Volta region. The specific objectives to be achieved are to:

- Identify the operations of the internal audit unit in financial administration of MDAs in Volta region.
- Examine the challenges facing the internal audit unit in financial administration of the MDAs in Volta region.
- Assess the extent to which the internal audit unit of the MDAs conforms to the best practices in internal auditing.

### 1.3 Research Questions

The study addresses the following research questions:

- What are the activities of internal audit units in financial administration of MDAs in the Volta Region?
- What are the challenges facing the internal audit units in financial administrations of MDAs in Volta Region?
- Do internal audit units of the MDAs in Volta region conform to the best practices in internal auditing?

### 1.4 Significance of the Study

MDAs form a substantial portion of the Ghanaian economy and they face quite a number of challenges ranging from poor strategic planning, limited skilled manpower, obsolete technology,

insufficient research and political interference. Internal audit unit perform an important task in advising the management of assembly on how to improve their operations. The quality of internal auditors' work therefore is of paramount importance. Compliance with internal auditing standards which includes proper financial administration is meant to safeguard and improve the quality of internal auditors' work. Quality auditing of the MDAs will assist them to increase their profitability thereby accruing high revenues to the government. High government revenue translates into increased economic development for the country. Increased economic development helps in improving production and wealth generation for Ghanaians.

This demonstrates that the benefits of quality internal auditing of MDAs spread even to the communities. This research work is aimed at digesting the operations of the internal audit unit in financial administration of MDAs and to identify the challenges facing them in the performance of their duties. The study will also help to examine and evaluate the extent at which the internal audit unit conforms to the laid down rules and regulations as directed by the Internal Audit Agency Act, Act 200. This study will also help improve internal control system, and risk management procedures that are carried out by the internal audit unit which would enhance stakeholders' satisfaction and trust of the work of the units, and thereby increase transparency, effectiveness and efficiency of reliable financial operations of the assembly's operations. However, the research will also improve literature on public sector internal auditing in Ghana.

### 1.5 Scope of the Study

The research is restricted to the activities of the internal audit units in financial administration of some selected MDAs in the Volta region of Ghana. The reason is not farfetched; their performance is a reflection of what pertains on the ground. They control and direct the activities of the assembly in the districts. Moreover, the performances of the assembly depend on the quality of internal auditing in place. Since the research works covers some selected MDAs in Volta Region, Ho Municipal, Sogakope District Assemblies, Ketu South District Assemblies, Agortime Ziope District Assemblies, and Nkwanta District Assemblies were selected because of financial irregularities in their audited works. The researcher will assess the operations of the internal audit unit in financial administration of these selected MDAs in the Volta region to draw research findings, propose recommendations and draw conclusions thereon.

### 1.6 Limitation of the Study

The research work covers only selected MDAs in the Volta region to assess the operations of their internal audit unit in ensuring proper financial administration. However, because few MDAs were selected in Volta region for the study, it would be difficult to generalize the results of the study in all government department and agencies. The researcher recommends similar exercise to be conducted in all regions and districts which may have peculiar difficulties. Again internal auditing in other governmental agencies needs similar exercise.

### 1.7 Organisation of the Study

The study was divided into five chapters. Chapter one presented the general introduction which constituted the background of the study to the organization of the study. Chapter two seeks is on literature review which sought to review the works of others on the topic under study. Some of the issues involved in the literature review were; definition of concepts, internal auditing, best practices of internal auditing, challenges facing internal auditing. Chapter three discussed the methodology of the study which includes data collections, population, sampling, data analysis techniques. Chapter four entailed the data presentation, analysis and discussion. Chapter five summarizes findings of the study, conclusion and recommendations.

## 2.0 LITERATURE REVIEW

### 2.1 Introduction

This chapter extensively deals with the theoretical framework of the study. 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.

## 2.2 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".

### 2.3 Operations of Internal Audit Unit

Internal auditing is the bed rock of good public sector governance by providing unbiased, objective assessments of whether public resources are responsibly and effectively managed to achieve intended results, auditors help government organizations to achieve accountability and integrity, improve operations, and instill confidence among citizens and stakeholders. The government auditor's role supports the governance responsibilities of oversight, insight, and foresight. Oversight addresses whether government entities are doing what they are supposed to do and serves to detect and determine public corruption. Strouse(2009) emphasizes that, internal auditing is considered to be most important in the quality system tool box when it is effectively implemented. It is the primary method for continuously monitoring a company's Quality Management System (QMS). Internal auditing is critical to the growth of the QMS. Through an audit, an organisation can identify a system's ineffectiveness, take corrective action, and ultimately support continuous improvement. Unfortunately, a poorly deployed internal auditing system can lead to increase non value-added costs, many hours of wasted resources, and an eventual, inevitable QMS breakdown.

Strouse (2009) is of the view that the expertise and knowledge of internal auditor can help in the following areas: Ensure accuracy, integrity and reliability of financial and operational information, Ensure compliance with laws, regulations policies and procedures, Safeguard and ensure judicious use of the entity resources, Facilitate the prevention and detection of fraud, Assess effectiveness of the design, implementation and maintenance of an entity's internal controls, Ensure adequacy of risks management in the entity, Assist management to ensure that plans, goals and objectives are achieved, Reduce the exposure to unpleasant surprises and Provide recommendations for improvement in operations.

However, Hernanson and Rittenberg (2002) identified risk assessment, providing assurance services, compliance with laws and regulations, and consulting and operations as the main roles of an

internal auditing unit. The roles of Internal Auditors are set by the IIA. The IIA is a worldwide professional organisation, whose role is to provide leadership to internal auditors worldwide through training and certifications, setting standards and developing global relationships, enhancing professional requirements, promoting organisational (internal audit) quality, and to define audit principles (The Institute of Internal Auditors, 2010; Gerry Cox, 2007).

#### 2.4 Definition of Internal Controls

One of the sole primary responsibilities of internal auditing is to evaluating internal controls. In 1992, The Committee of Sponsoring Organizations of the Treadway Commission (COSO) defined internal control as a process effected by an entity's board of directors, management and other personnel, designed to provide reasonable assurance regarding the achievement of objective in the effectiveness and efficiency of operations, reliability of financial reporting, and compliance with applicable laws and regulations. This organizational approach provides both profit and non-profit organisation with a common, accepted, and recommended reference point to assess the quality of its internal financial controls. Since profits happen to be the reward for successful risk-taking in business, the purpose of internal control is to help manage and control risk appropriately rather than to eliminate it (Doyle et al, 2006).

#### 2.5 The Role of Internal Audit Unit in Internal Controls

According to Fadzil et al (2005), the role of internal auditing in the review of effectiveness of the systems of internal controls is to ascertain whether the system is functioning as intended. Effective control is present when the administrative management directs the system in such a way as to provide reasonable assurance that the organization's objectivity and goals will be achieved. The purpose of the review for quality of performance is to ascertain whether the organisation's objectives and goals have been achieved. The primary objectives of an organisation's system of the internal controls are to provide administrative management with reasonable assurances that financial information is accurate and reliable; the organization complies with policies, plans, procedures, laws, regulations and contract; assets are safeguarding against loss and theft; resources are used economically and efficiently; and established objectives and goals for operations or programmes can be met.

#### 2.6 Internal Audit Unit Operations at the MDAs

The Government of Ghana has taken a proactive step in establishing the Internal Audit Agency (The Agency) by an Act of Parliament in 2003. The Internal Audit Agency (IAA) is mandated to co-ordinate, facilitate and provide quality assurance for internal audit activities within the public sector institutions (the IAA Act 2003, Act 658). The key requirements of the Act are the provision of internal auditing assurance and consulting services that will ultimately lead to the enhancement of efficiency, accountability and transparency in the management of resources in the public sector. The creation of the Internal Audit Agency was predicated on the need for the Government to put in place a structure that could support the eventual transfer of budgetary authority and expenditure control to MDAs. These initiatives are part of the government's efforts under the Public Financial Management Reform Program (PUFMARP). The Act received Presidential assent on 31st December 2003, Administrative transition was allowed up to 31 August 2004 and effective implementation started in 2005.

The Agency has formulated three strategies which it is currently pursuing to improve the image of the Internal Audit function in the public sector. These are as follows: 1. Professional Practice Framework which aims at developing key documents and templates for use by the Internal Audit function such the Internal Audit Regulations, Internal Auditing Standards, Audit Programs, Internal Audit Charter and Annual Audit Planning templates. 2. Human Resource Development which seeks to facilitate the recruitment, training and development of internal auditors to be proficient in applying internal audit standards, procedures and techniques in performing engagements. 3. Quality Assurance and Improvement which addresses the issue of continues improvement in the performance of the internal audit activity. Reviewing the internal audit literature shows limited research on the importance and benefits of internal audit per se or the relative importance of in sourcing compared to outsourcing the internal audit function. The present study addresses these questions by examining the operations of internal audit unit in financial administration in Ghanaian MDAs.

However, for MDAs, the manual specified that, the Unit has the authority to audit all parts of Assembly and shall have complete access to any of the records, physical properties, and personnel relevant to the performance of an audit. Documents and information given to auditors will be handled as prudently as they would be by those employees normally accountable for them. The Internal Audit Unit is authorised to: Have unrestricted access to all Units within the Assembly and access to the records, property and personnel of the Assembly, Have full and free access to ARIC members, Allocate resources, set audit frequencies, select auditable subjects, determine scope of audit work and apply the techniques required to accomplish audit objectives and Obtain the necessary assistance of personnel in Units of the Assembly where they perform audits, as well as other specialised services from within or outside the Assembly.

## 2.7 Responsibility of Internal Audit Unit at the MDAs

According to the internal audit manual designed by IAA (2003) for MDAs, the primary objective of Internal Audit function in the Assembly is to assist the management in the effective discharge of their responsibilities. In order to carry out this responsibility, the Internal Audit Unit shall: Develop a three-year strategic plan, discuss it with management and present it to the ARIC for its review and approval. Develop an annual audit plan and submit the plan to Management for review. Implement the annual audit plan, as approved, including, and as appropriate, any special tasks or projects requested by the Management of the Assembly and the Audit Report Implementation Committee. Maintain professional audit staff with sufficient knowledge, skills, and experience and professional certifications to meet the requirements of the audit function in the Assembly. Keep abreast of relevant best practice and new developments affecting their work and in matters affecting [the Assembly's] activities. Respond to [the Assembly's] changing needs, and strive for continuous improvement and maintain integrity in carrying out their activities. Issue reports to management summarising results of audit activities. Assist in the investigation of significant suspected fraudulent activities within the Assembly and notify management of the results. For the internal audit unit (IAU) at MDAs, the IAA (2003) requires the audit activities of the Assembly will be carried out by:

- A Head of Internal Audit Unit
- Staff in the IAU

The Head of IAU is responsible for maintaining a team of staff that collectively possesses the necessary knowledge, skills and disciplines for the achievement of the Internal Audit objectives. In particular, the Head of Internal Audit is to: ensure staff possess appropriate professional skills, qualifications and experience and provide opportunities to facilitate the continuing professional development of staff.

## 2.8 Operations of the Internal Audit Unit at the MDAs

However, the internal audit manual which was designed by the IAA Act 2003 outlined the audit activities for MDAs to include: Determination of the extent of compliance on the established policies & procedures and regulations based on the risks involved therein. Evaluation of the soundness of financial and operating controls and their cost effectiveness by highlighting real issues supported by the recommendations in participation with the operating management. Ascertaining the extent to which the Assembly's assets are safeguarded and deployed gainfully. Appraisal of the reliability of information generated by the Assembly. Evaluation of the quality of performance in carrying out the jobs assigned to various employees. Provision of suggestions for improving the control environment of the Assembly. Investigation of allegations of fraud, misappropriation, or possible loss to the Assembly and suggest corrective and preventive measures to avoid future mishaps. Provision of consultation to line management wherever they seek Internal Audit's views in resolving complex issues confronted by them. Review of new products, services and computerized systems being proposed (before signing of to be offered) to Assembly to ensure adequacy of controls therein. Review of policies and procedures before their finalization to check necessary controls are in place.

## 2.9 Scope of the Internal Audit Unit Operations at the MDAs



The scopes of auditing vary widely and depend on the size and structure of the entity and the requirement of its management the entity. The scope of internal audit activity includes examining and evaluating the policies, procedures and systems which are in place to ensure: reliability and integrity of information, compliance with policies, plans, procedures, laws and regulations; safeguarding assets; economical and efficient use of resources; and accomplishment of established objectives and goals for operations or programs. Internal audit may provide consulting services within the organization concerning issues related to internal controls, special investigations, and other areas of interest and concern. Internal Audit is responsible for coordinating audit planning and scheduling activities with external auditors. The scope of the IAU's work is to determine whether the Assembly's network of risk management, control and governance processes, as designed and presented by Management, are adequate and functioning in a manner to ensure that:

- Risks are appropriately identified and managed.
- Interaction with the various governance groups occur as needed.
- Significant financial, managerial and operating information is accurate, reliable and timely.
- Employees' actions are in compliance with policies, standards, procedures and applicable laws and regulations.
- Resources are acquired economically, used efficiently and adequately protected.
- Programmes, plans and objectives are achieved.
- Quality and continuous improvement are fostered in the Assembly and are recognised and addressed appropriately.
- Accounting procedures are effective.

Opportunities for improving management control and the Assembly's image may be identified during audits and communicated to the appropriate level of management.

#### 2.10 Audit standards for the MDAs

The Head of Internal Audit ensures that the Assembly's internal auditor(s) conduct audits and reviews according to generally accepted auditing standards using such audit programs, techniques and procedures as prescribed by IAA. The operation of the internal audit functions to be carried out must be consistent with:

- The Internal Audit Charter
- The Internal Audit Manual
- Statement of responsibilities (Job Descriptions),
- Code of Ethics for Internal auditors
- The Standards for the Professional Practice of Internal Auditing (IAA).
- The national laws and other regulations on internal audit in Ghana, IAA (2003).

#### 2.11 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.

### 2.12 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.

### 2.13 Challenges Facing the Internal Audit Unit

The internal audit profession is constantly facing challenges and obstacles. For instance, Ali, et al (2007) maintains that there is various problem faced by the internal audit, however two greatest problems are inadequate audit personnel and the audit personnel's lack of proper skills and competency. The same problems have been highlighted by the Auditor General of Malaysia (audit standards not up to marks"2007). The Auditor General highlighted that many of the officers carrying out internal auditing in the local authorities lacked knowledge and exposure on the right techniques and methodologies. Halimalin et al (2009) has also ranked ten main problems faced by the internal audit in the following order: Lack of audit staff, lack of support/ 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.

This is consistent with the findings of Ali et al (2007) where lack of number of audit personnel and incompetence of the audit personnel are two obvious factors that inhibit the internal audit function in the state and local government in Malaysia from meeting its full potential. The study by Brierley, et al (2001) in the Sudanese public sector which found out that the internal audit unit was significantly understaffed compared to the duties they were expected to perform. Generally, the findings suggest that lack of staff in the internal audit function is a problem not only encountered by Malaysian public sector but other country as well.

Again the support from management is imperative because generally the recognition and appreciation of internal audit unit within organisation is strongly dependent upon the support they receive from top management. According to Mihret and Yismaw (2007), lack of attention from management may send a wrong signal about the importance of internal audit unit services to the auditors, which in turn adversely affects the auditor attributes. However, lack of understanding on the role and responsibilities of the internal audit function also contributes to lack of cooperation between the unit and the external auditor. This is supported by Ali, et al (2007) that lack of understanding of the role of internal audit function as an independent appraisal function in an organisation inhibits their effectiveness. Sufficient Funding 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. Unrestricted Access Audits should be conducted with complete and unrestricted access to all forms of audit evidences like employees, property and records.

Existence of Audit Committee: Independency and objectivity of internal audit function depends on who it reports to. In an organization where there is audit committee, the internal audit function should

report to the audit committee. Is it legally mandatory to have Audit Committee in public institutions of Ethiopia so that independency and objectivity of internal auditors could be maintained?

**Stakeholder Support:** The legitimacy of the audit activity and its mission should be understood and supported by a broad range of elected and appointed government officials, as well as the media and involved citizens. But from the perspective of Ethiopia, do concerned stakeholders value the various internal audit activities and give the required support?

**Professional Audit Standards:** The IIA audit standards support the implementation of elements mentioned above in audit function of public bodies and provide a framework to promote quality audit work that is systematic, objective, and based on evidence. International Organization of Supreme Audit Institutions has also issued its own auditing standards to guide the auditing and accounting practices in the public sector (Diamond, 2002). But when it comes to the utopian case we have no any standard that reflects "the best practices" for public sector auditing neither are we aware of exactly which country's standards we should follow or are following?

**Unlimited Scope:** The IIA standard describes the scope of the IAF as a tool of management where the internal audit function closes the loop in the public sector management cycle to ensuring the efficient and effective use of resources. For many parts of the world, internal audit has often been, and continues to be defined rather narrowly, focusing on financial compliance and regularity, rather than broader management issues. Moreover, governance problems and lack of professional competence also constrains the internal audit function to the role and hinders its ability to generate timely and relevant reports (Diamond 2002). Given these considerations, it is perhaps not surprising that one of the significant problems often identified in countries' public sector governance system is that the internal audit function is weak and ineffective (Diamond, 2002). As a result, it is felt that this weakness prevails to such extent that it impacts more generally on fiscal transparency and governance issues in the public sector. To sum up, the internal audit function could be a major asset for improving public confidence in financial reporting and corporate governance only if the above-mentioned elements are maintained.

### 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 Taylor (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.

##### 4.1.2 Operations of the Internal Audit Unit in Financial Administration at the MDAs

According to the heads of the internal audit unit at the selected MDAs, they perform assurance services regarding internal controls, risk management and compliance with laws and regulations. They explained that, internal controls are the procedures and policies instituted by the assembly to ensure effective and efficient operational systems. They admitted that the component of internal controls being practiced are monitoring, which involves pre-auditing (amount to be paid by the assembly for projects), post-auditing (amount paid for projects by the assembly), submission of quarterly report to the Regional Co-ordinating Council and the Ministry of Local Government and Rural Development indicating whether funds have been used for the purpose intended. They explained that financial laws, policies and procedures are put in place to monitor these controls at the assemblies. These include the internal audit manual, financial administrative regulations developed to ensure proper accountability. The internal auditors suggested that monitoring helps to ensure that control activities and other planned actions to affect positively internal controls are carried out properly and in timely manner for effective financial administration.

The respondents also revealed that ongoing monitoring including pre and post auditing, issues warrant, budget approval, submission of monthly financial statement and project inspections are all indications that internal controls at the assembly level are properly implemented to safeguard and adequately manage the assembly's human and financial resources. They explained that internal auditor's role in the internal controls system is critical to its effectiveness. Internal auditors do not have to look at every single piece of information to determine whether controls are functioning. Rather they should focus their monitoring activities in high-risk areas. The use of spot checks of transactions or basic sampling techniques are used to ensure reasonable level of confidences that the controls are functioning as intended.

Apart from providing assurances with regard to controls, internal auditors are involved in systematic review of risk management at the assemblies. Risk management is carried out at the assembly

through controls and enforcement of financial laws and policies. The heads of the internal audit units explained risk management as the assessment of internal controls and it involves the processes to identify, prevent and control risk at the assembly and the planning of alternative action if a risk is realized. They explained risk as event, activity that may cause loss of assets or reputation and threaten successful fulfilment of tasks set to the assembly. During the interview with the internal auditors, they said that most risks can be grouped into three general categories;

- Financial risks
- Operational risks
- Strategic risks

The respondents suggested that to ensure that the assets of the assembly are protected or safeguarded, the assembly must deem it necessary on focusing on risk management. They explained that risk management at the assembly level is important because it prevents, detects and gives directives rather than just checking accounting records or quality assurances. The interview conducted also reviewed that the internal auditors are involved in consultation services. They were also in agreement that their sole responsibility is to provide the assemblies with the advice on the means of reducing cost and improving efficiency and effectiveness. The internal auditor serves as an advisory to the assembly on public sector governances, in areas of advising the Co-ordinating Directors on allowances to be paid to the assembly members and by ensuring proper management of account for any money used for the purpose for developing the districts. They admitted that in order to ensure ethical practices and anticorruption programmes, effective risk assessments are carried out, periodical audit on possible high risk areas and risk register is prepared which forms part of the annual plans to ensure that resources are properly accounted for and used for the intended purposes. The heads were in agreement that in order to comply with laws and regulations, the following code of ethics and regulations must be adhered to:

- Confidentiality: internal auditors must respect the value and ownership of information they receive and do not disclose information without appropriate authority unless there is a legal or professional obligation to do so
- Objectivity: the internal auditors must exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. They must make a balanced assessment of all relevant circumstances and are not influenced by their own interest or by others in forming judgments
- Competency: they must apply the knowledge, skills and experience needed in the performance of internal audit services. Integrity; must establishes trust and thus provides the basis for reliance on their judgment.
- Integrity: In order to adhere to professional standards in internal auditing, they said there is internal audit manual that spelt out the guidelines for operationalization of the internal audit at the MDAs level.

They said that the manual for internal audit unit at the MDAs was developed by the Internal Audit Agency and the Ministry of Local Government and Rural Development with the view of facilitating, co-coordinating and providing quality assurance through internal audit in MDAs. They admitted that objectives of the manual are to serve as a useful guide to the internal audit staff in respect of their responsibilities, approach and authorities to conduct effective internal auditing of the assemblies and communicate audit results to the assemblies and related parties.

## 4.2 Conformity to the Best Audit Practices

### 4.2.1 Organizational Independence

All the heads of the internal audit admitted that audit functions are strategically positioned to contribute to the assemblies' strategic performance. The auditors revealed that they have been given relevant authority to report to Audit Report Implementation Committee (ARIC) if they found out that officials in the assembly abused their power against public interest. They also have the power to inform

ARIC when they realize that officials of the assembly are withholding key information to the stakeholders. But they have limited right to choose any transactions or area of interest for audit. Such reports are addressed directly to the chairman of ARIC with parallel copy to the District Coordinating Executive (DCE).

#### 4.2.2 Human Resources Management

Recruitment of internal auditors is done by the Local Government Services and the Internal Audit Agency. These internal auditors are posted to all the units of the assemblies to conduct audit assignments. The auditors admitted that salary level is not sufficient to attract and retain internal auditors which have the skills and the required qualification to conduct audit assignment. They often depend on national services personnel to carry out audit assignment.

#### 4.2.3 Training

The heads of the internal audit admitted that they are responsible for maintain a team of staff that collectively possesses the necessary knowledge, skills and disciplines for the achievement of the internal audit objectives. They provide workshops that give the internal auditors the opportunities to interact with other professional auditors and bodies to keep informed about developments in the internal audit standards. Auditors revealed that quality assurance programmes are carried out in seminars and workshops, which prepare them to enhance the audit assignment. The internal auditors said they always encourage their members to sit for professional certification examination like the ICA, ACCA, etc in order to conform to the best practices in internal auditing.

#### 4.2.4 Unrestricted Access to Audit Evidences

They admitted that they are not fully allowed to all vital information and records on employees to make informed judgments in their audit operations. They said records such as cash books, are always in arrears and most information are always missing from records and some not properly accounted for.

#### 4.2.5 Stakeholder Supports

In their submission, they indicated that they receive some form of support from stakeholders, obtain training from the local government to enhance audit activities and support from the ARIC in a form of evaluating annual plans and approval.

#### 4.2.6 Implementation of Recommendations

During the interview, the issue as to how the assembly responds to audit observation or report came to light. This question was met by a mixed response from the internal auditors indicating that management gives the internal audit necessary attention it deserves when sensitive issues are made know to management after an independent examination and review of financial statement, other relevant books and document of accounts are examined by the internal auditors. Some of the heads admitted that there is cordial relationship between them (internal audit unit) and ARIC but not in supportive form. They always report audit findings to ARIC but ARIC is very slow in terms of implementation of recommendation made in the reports. Copies of their reports are also sent to the Regional Co-ordinating Council, and the Director General of Internal Audit Agency (IAA).

#### 4.3 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.

#### 4.4 Analysis and Discussions

##### 4.4.1 Operations of the Internal Audit Unit

The interview conducted indicate that the internal audit units are so much involved in pre and post auditing activities, preparation of financial statement and submission of quarterly report to the ARIC and RCC and project inspections to ensure adequate uses of the assembly resources. However, there is clear indication that the internal audit unit is providing assurances and compliance role to ensure total development at the local level. The operations were among element underlined by Bishop, W., Hermanson, D., Lapidés, P., & Rittenberg, L. (2000) that identified risk assessment, providing assurance services regarding internal controls, compliance with laws and regulations, and consulting as the main roles of an internal auditing unit. Also IAA re-enforces the core role of the internal auditor as, an independent objectives assurance and consulting activity designed to add value and improve an organization"s operations.

This shows that the IAA outlined the main role of the internal auditors as providing assurance and consultation services. However, it was in line with the activities internal auditors are currently performing at MDAs. These operational activities help an organization accomplish its objectives by using a systematic disciplined approach to evaluate and improve the effectiveness of risk management, control and governance process. Substantially, internal audit unit systematically reviews risk management process through controls and enforcement of financial laws and policies to prevent frauds, detect and also give directives. This was in line with the Chief Audit Executives" (CAEs") participating in a March 2009 roundtable which discussed several aspects for enhancing internal audits efforts in the areas of risk management. These show that the results of operations are in line with previous research conducted.

In relation with the area of consultation by the internal audit unit, internal auditors who master the principle of effectives internal consulting can use the related method and techniques to dig deeper and deliver the truth. According to Meislin (2003), the author of the internal consultant, drawing on inside expertise, use of consulting skills and techniques can help internal auditors to reposition themselves from an in-house enforcer or policing function to a valued adviser. Also establishing collaborative relationships, minimize resistance and expand positive influence with client, peers, superiors and employees will reduce or eliminate the use of audit lingo by listening to client speak the daily language of business.

These were in line with works conducted by the internal auditors in the selected MDAs in the Volta region. They confirmed that they are involved in providing advisory role to the assembly on public sector governances, in areas of advising the Co-ordinating Directors on allowances to be paid to the assembly members and by ensuring proper management of account for any money used for the purpose for developing the districts.

##### 4.4.1.1 Scope of the Audit

The scope of the IAU"s work is to determine whether the Assembly"s network of risk management, control and governance processes, as designed and presented by Management are adequate and functioning in a manner to ensure that, risks are appropriately identified and managed, accounting procedures are effective, resources are acquired economically, used efficiently and adequately protected and programmes, plans and objectives are achieved as designed in Internal Audit Agency manual (IAA Act 2003). The heads of the internal audit unit interviewed admitted that they performed audit on the basis of annual plan and received plans for each engagement which established objectives and its scope. They said their works covers: Periodic review of internal controls systems for assessing and promoting the



adequacy of public sector governance. Project monitoring and inspections to effectively evaluate projects accomplishment. Examine productivity through evaluations of reports. Examining the inflows and outflows of the assembly resources and projects. Disbursement procedures and compliance with financial laws. Review of financial statements to examine data reliability.

Prepare assets register, store register and to test proper recording of assets and expenditure reliability of financial information. Based on the response gathered from respondents, MDAs undertake compliance audit. The respondent stressed that although the units undertake operational, financial, and fraud audit which is beneficial. They admitted that assemblies undertake compliance audit for the reason of international uniformity and conformity with respect to preparation, presentation and disclosure of financial statement and international standard of auditing (ISA). Analyses show that this is in consonance with Ion-Bogdan (2004) which explained compliance audit as determining the level of adherence to legal constraints, policies and procedures. Such rules can originate internally as corporate by laws, policies and procedures or externally as laws and regulations.

#### 4.4.2 Conforming to the Best Internal Auditing Practices

##### 4.4.4.1 Organizational Independence

The duty of internal auditors clearly requires them to be independent (Ahmed and Taylor, 2009). And ideally, internal auditors must be free to report matters they audit as they are and their reporting activities are not subject to any influences (Sawyers and Dittenhofer, 1996). Independence and objectivity are considered essential for internal auditors' proper discharge of responsibilities (Christopher, Sarens, and Leung 2009). At the interview, the head of internal audit unit for MDAs selected for the research agreed that, they have been given relevant authority to deal with all officials in the assembly who would abuse their power against public interest to the audit ARIC. They also have the power to report to ARIC when they realize that officials are withholding key information to the stakeholders and have the right to choose any transactions or area of interest for audit. Such reports are addressed directly to the chairman of the ARIC with parallel copy the DCEs. This information provided by these unit heads clearly indicates that the selected MDAs are in line with the research conducted on public sector auditing and their activities in terms of their independence and conforming to the best internal auditing practices.

##### 4.4.2.2 Human Resources Management

Recruitment of internal auditors is done by the local government services and the IAA. These internal auditors are posted to all the units of the assemblies to conduct audit assignments. The auditors admitted that salary level is not sufficient to attract and retain internal auditors which have the skills and the required qualification to conduct audit assignment. They often depend on national service personnel to carry out audit assignments personnel who are not competent to carry out audit activities. This shows the internal audit units are not conforming to the best practice as instituted by IAA.

##### 4.4.2.3 Training

Technical competence and continuous training are considered essential characteristics of effective internal audit units. Consistent with this notion, (Gramling and Meyers, 1997) quoted in (Frimpong, 2011) find that certification of internal auditors is perceived as an indicator of internal audit competence. Further, internal auditor cannot have power unless they possess the necessary knowledge and experience (Al-Twaijry et al, 2003). The heads of the internal audit admitted at the selected MDAs that they are responsible for maintaining a team of staff that collectively possesses the necessary knowledge, skills and disciplines for the achievement of the internal audit objectives. They provide workshops that give the internal auditors the opportunities to interact with other professional auditors and bodies to keep informed about developments in the internal audit standards. Auditors revealed that quality assurance programmes are carried in a form of seminars, workshops, orientations which prepares them to perform well on the audit assignment. The internal auditors said they have encouraged their members to sit for the professional certification examination such as ICA; ACCA etc. This will enable them qualify as stipulated in the Agency Act.

#### 4.4.2.4 Unrestricted Access to Audit Evidences

The internal auditors admitted that they are not fully allowed to all necessary information, records employees to make an informed judgment in their audit operations. They said that records such cash books, are always not up to date and most information are always missing from records and some not proper accounted for. These are evidences that show that the units are not performing according to the best practices in auditing in the areas of unrestricted access to audit evidences.

#### 4.4.2.5. Stakeholder Supports

It can be concluded from research based on the internal auditor's comments that they are receiving some support from stakeholders. They obtained training from the local government to enhance audit activities and support from the ARIC in a form of evaluating annual plans and approving. They always receive some documents for auditing from staffs of the assemblies and give approval to the internal auditing activities by the DCE. This means that to some extent the internal audit units are conforming to best practices of auditing in the area of support from stakeholders.

#### 4.4.2.6 Implementation of Recommendations

It is legally mandatory to have ARIC in public institutions so that independency and objectivity of internal auditors could be adhered (IAA Act 2003). Research conducted by (Sterck and Bouckaert 2006) mentioned that the implementation of internal audit function in the public sector is most effective when there is legal requirement for the establishment of internal audit function, strategy for development of competency of internal audit function staff, support from top management and existences of audit committee, and the central unit for the advancement of the internal audit function. However, for the internal audit units at all MDAs to function effectively, Section 30 (1) of the Audit Service Act, 2000 (Act 584) requires all institutions subject to auditing by Auditor General, including Ministries, Departments and Agencies (MDAs) and Metropolitan, Municipal and District Assemblies (MMDAs) to set up an Audit Report Implementation Committee (ARIC) to ensure the implementation of the recommendations of audit reports.

Section 16(8) of the Internal Audit Agency Act, 2003 (Act 658) also reiterates the need for all MDAs and MMDAs to comply with Section 30(1) of Act 584 and establish ARICs. However, during the interview with the heads of the internal audit unit, how the assembly responds to advice or report to the internal audit unit was asked. This question was met by a mixed response from the internal auditors indicating that management gives the internal audit necessary attention it deserves when sensitive issues are made known to management after an independent examination and review of financial statement and other relevant books and document of accounts are undertaken by the internal auditors. Therefore, the inability of ARIC to respond quickly to report of the internal audit units means that to some extent, MDAs are not conforming to the best practices of internal auditing in the public sector as the Internal Audit Agency act 2003 establishes.

#### 4.4.3 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 cross 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

This chapter basically summarizes the findings analyzed from the data collected from the previous chapter. It also discusses the conclusion drawn from the findings and recommendations that can help improve the operations of the internal audit unit at the various MDAs in the Volta Region.

### 5.1 Summary of Findings

#### 5.1.1 Operations of the Internal Audit Unit in Financial Administration at the MDAs

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. The outcome also revealed that the units undertake compliance audit and assessment of risk management as part of the audit activities in the assemblies. Internal audit unit at the selected MDAs provide advisory services to the assemblies in areas such as:

- Allowance to the assembly members
- Proper accountability
- Preparation of risk register
- Project evaluations and annual plans
- Special audit assignments

The assemblies therefore have ARIC that is supposed to implement the findings from audit reports to strengthen the control activities in the assemblies and also to ensure that financial statements present the true and fair view of the assemblies. The internal audit activities at the MDAs are directed by the internal audit manual designed by the IAA Act 2003. The manual contains the role of internal auditors, scope of internal audit, reporting requirement and audit procedures.

Therefore, the unit reviews all financial activities of the assembly and issue quarterly report to the District Co-ordinating Director, RCC and ARIC. The unit also examines all the inflows and outflows of the assembly resources and projects, reviews financial statement and procedures for disbursements. It was also revealed that the unit tests for proper recording of assets and expenditure in the assets register and stores register.

#### 5.1.2 Conforming to the Best Audit Practices

The interview revealed that the internal audit unit faces challenges such as;

- Inadequate staffs.
- Inadequate logistics in undertaken the internal audit process.
- Slow implementation of audit recommendations.
- Restricted access to records.

#### 5.1.3 Challenges Facing the Internal Audit Unit at the MDAs

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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