

Analyzing Challenges Facing Internal Auditors in the Performance of their Duties

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Abstract

This study is interpretative qualitative research which adopted a case study approach. The instruments used were interviews and publicly available documents. The data is analyzed using thematic analysis. The study reveals that internal auditors play oversight responsibilities, improve internal controls, advise management on risk management policies, ensure the organization follows regulations and brings out quality financial report. However, internal auditors face many setbacks. Internal auditors are taken for granted and lack independence and cooperation from other staff. Again, they have defined scope of work with limited power and have inadequate career development to make them effective in performing their roles. The Internal Auditors basically forms an integral part of the internal control mechanism of the assembly. The internal audit unit provides reasonable assurance to the assembly that financial and non-financial controls are effectively in place, policies, regulations and laws are adequate, and are complied with through independent reviews of various activities (Internal Audit Act, 2003). To ensure effective financial administrations at the assembly, the Internal Audit unit is to review all payments to be made by the assembly, review all revenues receipted before and after they are paid into the bank. The unit also inspects and verifies all items received into stores as against specification and established standards and other personal related issues (Financial Administration Act, 2003). The internal audit unit is supposed to ensure strong control over collection and recording of Internally Generated Fund (IGF); regular banking of revenue daily; ensure correct statement of revenue; prepare bank reconciliation statements monthly; inspect payment vouchers adequately acquitted and properly filed, etc. (Financial Administrations Act, 2003). Unfortunately, these seem not happening; even the Public Accounts Committee (PAC) sitting in Volta Region in 2012 revealed that 48.4 million Ghana cedis was lost by the state from the statutory funds, including the district assemblies common fund, through the MDAs across the country during the 2010, 2011 and 2012 financial years. The increased demand for accountability and transparency from public sector entities has placed much emphasis on the work of internal auditors. However, the setting up of internal audit in public institutions has not achieved its main objectives as a result of pervasive corruption and financial irregularities that still exist in our public institutions. This may be as a result of lack of knowledge and wrong perceptions about the work of internal auditors by managers and other stakeholders. The study therefore seeks to examine the roles and status of internal auditors from the perspective of these stakeholders.

Keywords: Internal Audit, Credit Management Practices, Public Financial Administration, Economic management, Accounting, Accountability, Transparency

1.0 INTRODUCTION

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".

Internal audit as one of the components of internal control in organizations is critical to the attainment of objectives. This role even becomes more important in public sector entities as most activities are carried out with the tax payers' money and the need to safeguard the resources of the state. Following an increased emphasis on good corporate governance principles in the public sector especially in the developing countries where the various stakeholders including civil society and the media are becoming more interested in the manner public funds are allocated and expended, it is important for government institutions to be transparent and accountable (Marfo-Yiadom & Achina, 2016)

Internal Auditing in general is part of the public financial management system which undertakes independent evaluations with the aim of giving assurance on the operations of institutions as well as ensure the objectives of the organization are achieved (Institute of internal Auditors (IIA, 2009). The passage of the Internal Audit agency Act, 2003 (Act 658) brought about the establishment of internal audit units in the public sector. The primary goal of internal audit is to evaluate the institution's risk management, internal control and corporate governance processes and ensure that they are adequate and are functioning correctly (Ankrah, 2016). This was intended to enhance efficiency, accountability and transparency in the management of resources in the public sector (Nomo, 2009).

With the institution of internal audit units in public sector organisations, it will therefore suggest that organizational efficiency will be enhanced with less scandals, embezzlement of public funds and corruption. However, financial mismanagement in public sector continues to be at an alarming rate. In the past, internal auditing was seen as a mechanism to double check the thousands of financial transactions that were posted to the accounts each week. In the 1950s and 1960s, it only consisted of basic tests of the accounts with a view to isolating errors and irregularities.

However, several studies have shown that the roles of internal auditors, particularly, in the private sector has expanded both in scope and significance (Spira & Page, 2003; Abbey, 2010; Gros, Koch & Wallek, 2016). The various expectations from stakeholders on the roles and responsibilities of internal auditors in preventing fraud cases, corruption and embezzlement of funds may bring about expectation gap which there is a need to do more examination to reconcile and overcome the challenges that internal auditors face in performance of their duties. It is against this backdrop that this study intends to examine the roles and status of internal auditors in public sector entities in Ghana.

2.0 LITERATURE REVIEW

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.

Corporate governance is fundamentally important to all modern institutions and internal audit as an aspect of this engages in activities crucial to the attainment of good corporate governance. In the view of Asare (2009), the modern concept of internal auditing can be identified by the evaluation and improvement of risk management, control and governance processes. This is in line with the way internal audit is defined by the Institute of Internal Auditors. The Institute of Internal Auditors (IIA, 1999a) is the international professional organization that oversees internal audit guidance, certification, education and research. It defines internal auditing as: "*An independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes*".

The definition (which is also repeated in IIA 2008) perfectly highlights the scope, structure and purpose of internal auditing in an organization and points to the main concern of evaluating and improving risk management, control and governance processes, which encompass policies and procedures put in place to guarantee the achievement of objectives. The modern definition underscores the need for objectivity in internal audit activities and the emphasis on the evaluation and improvement of the effectiveness in risk management and governance processes (Asare, 2009). Internal audit considers the proper assessment of risk in organizations, ensuring the reliability of internal and external reporting of information. The current and modern definition also underlines two main internal audit services: assurance and consulting services (Asare, 2009).

Internal audit ensures that accountability is enhanced through established processes, compliance with applicable laws and regulations and ethical standards (Asare, 2009). In discussing the purpose of internal auditing, (Cohen & Sayag, 2010) posits that the aim of IA is to improve organizational efficiency and effectiveness through constructive criticism, they see IA as an indispensable management tool for achieving effective control in both public and private sector organizations (Eden & Moriah, 1996). Internal auditing is normally designed to be able to assess the effectiveness of the control environment, add value, and improve the operations of an organization.

In the past, internal audit was regarded as merely focused on financial and accounting matters, and clearly explained by Asare (2009) in his study of internal auditing in the public sector as an activity that was perceived as only ensuring that the accounting and underlying records of an organization's transactions were properly maintained, the safeguarding of assets through its management system and ensuring the existence and compliance of policies and procedures. Today the role of internal audit has developed to include active risk and control evaluations which are integral to the corporate governance process. According to Mihret and Yismaw, (2007) the definition signifies a paradigm shift in internal audit from an emphasis on accountability about past to improving future outcomes to assist auditees operate more effectively and efficiently (Nagy and Cenker, 2002; Stern, 1994; Godwin, 2004).

A review of the extant literature reveals that there is no one single theory used in the study of IA and its effectiveness within organizations (see e.g., Adams, 1994; Ahmad, 2015; Al-Twajry et al. 2003; Dittenhofer, 2001; Endaya & Hanefah). Agency theory is employed in the accounting literature for instance to study the appointment and performance of external auditors but also provides a useful theoretical framework in the study of the IAF. The Agency theory helps to explain the existence of internal audit function and the role and responsibilities assigned to it by the organization, and further predict how the IAF is likely to be affected by organizational change (Adams, 1994).

However, other scholars like Tackie, Marfo-Yiadom & Achina, (2016) depended on the Institutional theory and the professions theory in their study of decentralized local government administrative systems. Similarly, in analyzing the IA in the Saudi Arabian corporate sector, Al-Twajry, Brierley & Gwilliam (2003) relied on the Institutional theory and suggested that the state should play a more coercive role by encouraging organizations to establish IA departments and organize their activities in the manner specified in IA standards. Several previous studies on IA have relied on the institutional theory with the contention that the institutional theory is a valid theory for IA effectiveness (Al-Twajry et al., 2003; Arena & Azzone, 2006; arena & Azzone, 2007; Mihret et al., 2010).

2.1. Purpose of internal auditing in organizations

In discussing the purpose of internal auditing, Cohen & Sayag, (2010) posits that the aim of IA is to improve organizational efficiency and effectiveness through constructive criticism, they see IA as an indispensable management tool for achieving effective control in both public and private sector organizations (Eden & Moriah, 1996). The importance and relevance of the whole idea of studying IA has been seen as worthy of attention and the belief held that internal auditors are important as well, owing to the fact that economies rely on independently produced information to thrive (Van Peurse, 2005).

According to Cohen & Sayag, (2010) in their exploratory study and conceptualization of IA effectiveness in organizations, an understanding of the factors that determine IA effectiveness can improve a number of processes in an organization: learning (teaching members how to do their job better); motivation (auditing leads to improved performance as deficiencies will have to be explained); deterrence (knowing that an audit is imminent may discourage abuse); and process improvements (IA may increase the likelihood that the right things are done and that they are done right) (Eden & Moriah, 1996).

Following from the extended role of IA, internal audit is found to be an essential monitoring mechanism in corporate governance along with the external auditor, audit committee and executive management (Gramling et al 2004). The literature is unanimous on the aim of IA being to assist an organization in achieving its objectives (Roth, 2003; Hass et al. 2006). Internal audit performs a wide variety of activities in the bid to assist organizations achieve objectives through assurance or consulting services. (Dellai & Omri, 2016). First, IA can provide assurance on the proper design and effective operation of the organization's systems of control.

Secondly, it can act as management consultant to improve risk management (Spira and Page, 2003). IA can assist the audit committee and external auditors in monitoring the internal control system (Goodwin, 2003). IA can help to reduce fraud, misappropriation of assets and misreporting of financial information (Coram et al., 2008). Essentially, the IAF is the corner stone of corporate governance which contributes to improving the productivity, efficiency and performance of the company in both private and public sector (Mihret et al. 2010; Gros et al. 2016).

2.2 Role of internal audit in public sector organizations

Considering the study by Enofe, Mgbame, Osa-Erhabor & Ethiorobo (2013), IA is said to play a critical role in enhancing effective management in the public sector. Scott (2003) asserts that public sector audit traditionally, deals with issues regarding legality, probity and regularity and currently undertakes activities to ensure efficiency and performance. Management control, which is mainly in-built in the public financial management system in the public sector, includes all the policies and procedures put in place by a government and the management of public sector entities aimed at promoting accountability of resources (Asare, 2009).

IA is playing a significant role in public sector governance and PFM reforms for improvement of performance in developing countries (Diamond, 2002; Asare, 2009). According to Asare (2009), the broader nature of public sector governance calls for an effective internal auditing function to meet the demanding responsibilities imposed by stakeholders. Asare (2009) further asserts that IA can help to improve governance processes by focusing on how values are established to ensure effective and efficient control and management of public sector entities.

Furthermore, Asare (2009) posits that the internal auditor's role in risk management involves assessing and monitoring the risks that the organization faces, recommending the controls required to mitigate those risks, and evaluating the trade-offs necessary for the organization to accomplish its strategic and operational objectives. Asare (2009) explained further that the key risks that requires attention by management is fraud and corruption but it is the role of IA to gather sufficient objective information for management to carry out its stewardship function

2.3 External auditor's reliance on internal audit

The external auditor at the planning stage of any audit must be clear on the decision to rely on internal auditors on the basis of an examination of the auditors' past work. The requirement is for the external auditor to consider and test the appropriateness of using the IAF to support the external auditing efforts. Appropriateness is defined in terms of the relevance and reliability of the IAF and the potential

cost savings to the external auditor (Reistein, Lander & Gavin, 1994). External auditor relying on internal auditor activities should assess the internal auditor's independence and competence. To be able to do a proper and effective assessment of competence of the internal auditor, Reistein, Lander & Gavin (1994) on their study of the External Auditor's consideration of the IAF posit that the external auditor needs to know the internal auditors' educational level and professional experience; their professional certification and continuing education; the audit policies, programs and procedures they operate under; how they are assigned and how they are supervised and reviewed.

In similar vein, Brown (1983) identified independence and work performance of internal auditors as the most important. Whereas Abdel-Khalid, Snowball and Wragge (1983) regards independence of internal auditors as the most important reliance factor, Schneider (1984) considers work performance as the most important and objectivity at second place. In a later study, Schneider (1985) considers both competence and work performance as equally important in the external auditor's reliance decision but finds objectivity to be less significant. In similar manner, Haron et al. (2004) in their study on the reliance of external auditors on internal auditors reveals that internal audit's competence and scope of work were the factors considered by external auditors in making reliance decision. In other studies, another factor that affects the external auditor's reliance decision is the inherent risk associated with an auditee (Carey et al., 2006; Felix, et al., 2001).

The reliance of external auditors on the work of internal auditors may minimize the inherent risk associated with high-risk clients resulting from the internal auditors' greater awareness of client operations better than external auditors (Carey, et al., 2006). According to Spraakman (1997), the internal auditors have access to organizational information than external auditors. Internal audit effectiveness as measured by management's acceptance and implementation of internal audit findings and recommendation may also impact on external auditors' reliance on internal audit work (Mihret and Admassu, 2011).

2.4 Expectations of External Auditors

A great deal of research carried out to assess IA effectiveness from the perspective of external auditors noted that there is considerable uncertainty among external audit whether IA is playing a significant role in the governance space of organizations and not just carrying out the directions of the audit committee and the board (Cohen et al 2010). External auditors are concerned with IA effectiveness because they may have to discuss with the Audit committee the quality of the IAF and the extent to which they are able to rely on the work performed by IA (Cohen et al). When assessing IA effectiveness from an External audit (EA) perspective, the higher the utilitarian benefit for EA, the higher IA quality is perceived. The value that EA sees in IA is dominated by the reliance question (Lenz and Hahn, 2015).

2.5. Organizational Arrangements of Internal Auditing in the Public Sector

According to Asare (2009), managers in the private sector had a wider range of expectations for the purpose and role of IA in the past than those in the public sector. The narrow expectation of public sector managers explains the reason internal audit within the public sector was dominated by pre-payment audits (Asare, 2009). As a result, internal auditors devoted most of their time to checking on individual transactions before the payments were made. However, IA in recent years has assumed a strategic dimension and that underscores why it has become an essential component of public sector governance and financial management reforms in many developing countries (Asare, 2009, p.15)

The nature of internal audit organizational arrangement determines its independence and effectiveness. The size and complexity of the public sector have influenced the diverse forms of IA organizational arrangements and service delivery approaches. Internal audit structure in the public sector can broadly be classified as following either centralized or a decentralized model (Asare, 2009, p.17).

2.6. Internal and External Auditing in the Public Sector of Ghana

The role of IA in the public financial management of Ghana is critical in the delivery of the public good. Public sector organizations benefit from IA either from performance audit which ensures economy, efficiency and effectiveness in the use of resources or through financial audits that ensures prevention and detection of irregularities (Al-Twaijry, Brierley & Gwilliam, 2003). The Auditor-General is mandated by

the 1992 constitution of Ghana to audit and report to parliament the public accounts of Ghana and of all public offices, including the courts, the central and local government administrations, of the universities and public institutions of like nature, of any public corporation or other body and organization established by an Act of parliament.

The Internal Audit Agency of Ghana is the body responsible for establishing IA units in MDAs and MMDAs as well as issuing standards on internal auditing for internal auditors in the public sector. The establishment of a central IA agency is to enhance efficiency, accountability and transparency in the management of resources in the public sector (Tackie, Marfo-Yiadom & Achina, 2016). IA has suffered administrative and legislative neglect in the past not until 2004 (Onumah & Krah, 2012). According to Simpson (2012), the establishment of the Internal Audit Agency was in response to the lack of proper accounting and auditing systems in the public sector in the 1990s. Onumah & Krah (2012) concluded in their study on the barriers and catalysts to effective IA in the Ghanaian public sector that the scope of IA services in the public sector is limited to regular audit activities mainly pre-audit of payment vouchers which takes 74 percent of the estimated average productive audit time.

They asserted that IA in the Ghanaian public sector is hampered by low professional proficiency of internal auditors, lack of management ownership and support for IA activities, lack of budget authority of the IA units and weak functioning of audit committees among others. However, in the determination of IA effectiveness in Ghana's local districts, Tackie, Marfo-Yiadom and Achina (2016) asserted that there is professional proficiency in the IA units of the MMDAs and that the internal auditors possess the appropriate professional skills, qualifications and experience and participate in continuing professional development. They also concluded that to a greater extent the internal auditors in the local districts possess organizational independence. Consistent with Onumah & Krah (2012), the top management in the local districts does not support internal auditors as regards the encouragement expected and adequate budget to the IA units (Tackie, Marfo-Yiadom & Achina).

2.7 Empirical studies on Internal Audit

Asiedu *et al.* (2017) used structural equation modelling (SEM) analysed the link between corruption and effective internal audit function (EIAF) in Ghana through a survey of directors and managers of selected public sector organizations including education. A decade after the promulgation of the Internal Audit Agency Act (IAAA), 2003 (Act 658) as an instrument to fight administrative corruption in Ghana, they noted that there is little empirical evidence to show its impact on corruption, though subjective evidence suggested it has played a critical role in maintaining financial discipline and public sector accountability and transparency. Also, the study established that full implementation of Act 658, size of the internal audit department and independence of the audit department significantly affect the effectiveness of the internal audit function which negatively impact on corruption. The study concluded that strict adherence to and the implementation of regulations and laws as well as independence of the internal audit function will help fight administrative corruption in Ghana. Hence the limitation of the study is that it cannot be generalized statistically.

The Internal Audit Department (IAD) is a cornerstone for effective corporate governance of public institution Paape (2007). However, its effectiveness largely depends on the support of management Katz (2009). Based on these assertions, Dawuda *et al.* (2017) examined management support services and its effects on the performance of Internal Audit Department in the Public Sector of Ghana (PSoG). The study used an exploratory research approach and the study findings discovered that the Internal Auditors were not satisfied with the support services that management provided, also, the study found that there was strong positive correlation between Management Support Services (MSS) and the internal audit performance. Again, it was found that support services that influence internal audit performance were management commitment to working with internal auditors to develop internal auditor charter and providing adequate logistics.

Based on the findings the study recommended that management should see internal audit unit as a strategic business unit in creating value and give it the necessary support. The internal audit agency should be restructured with constitutional powers to recruit, train, determine condition of service and post internal auditors to all public institutions. While addressing the relationship between the supply of auditing in the public sector and political competition expected in future elections. Baber (1983) empirically

tested that using cross-sectional data from state governments and the study findings reveal positive correlations between state audit budgets and measures of political competition. The study however was consistent with an argument that public officials' incentives to supply auditing arise from contracting between the officials and their interests. Audit Committees (AC) and the internal audit function (IAF) are two key corporate governance mechanisms.

Mat Zain and Subramaniam (2014) study provided insights into internal auditors' perceptions of their interactions with AC members in Malaysia. The study thus contributed to the extant literature by providing additional evidence from a South-east Asian country which is recognised as being characterised with a high-power distance culture and a developing capital market. The study findings which were based on in-depth interviews of the heads of the internal audit function (HIAFs) from 11 publicly listed companies indicated infrequent informal communications and limited private meetings between the HIAFs and ACs, and a need for clear reporting lines. Further, ACs is seen to be held in high esteem for their authority and is expected to take on greater leadership in the inquiry of management's decision-making.

Furthermore, Dominic and Martinov-Bennie (2014) adopted exploratory research method to provide insights into the current roles and responsibilities of the internal auditors (IA) function and the factors perceived to be necessary to ensure its effectiveness. Data for the study was collected through Semi-structured interviews to elicit the perceptions of key corporate governance actors about the evolving role of IA, as well as IA effectiveness, in terms of its design, measurement, and evaluation. The results of the study suggested significant expansion and refocus of the role of IA and perceptions of its effectiveness. However, the findings also suggested that performance evaluation mechanisms of IA have not evolved contemporaneously. The misalignment between the role and evaluation gives rise to difficulty in assessing the extent to which IA functions are meeting stakeholders' expectations.

Allegrini *et al.* (2014) in their study reviewed recent internal auditing literature in Europe to document how the internal audit function is changing in response to the shifts in global business practices drawing from the 2006 global Common Body of Knowledge (CBOK) study, in an attempt to better understand the expanding scope of internal auditing practice throughout the world. The study approach was a review of literature in Europe with a focus on developments that have implications for the expanded scope of internal auditing and the changing skill sets of internal auditors and their role in enhancing good corporate governance in public institution. The study found that literature indicated changes in the activities performed by internal auditors. The increasing complexity of business transactions, a more dynamic regulatory environment in Europe, and significant advances in information technology have resulted in opportunities and challenges for internal auditors.

In Zamzulaila *et al.* (2006) study, their purpose was to provide evidence on the establishment of the internal audit function in the higher education institutions in Malaysia and also to obtain the perceptions of the management of the higher education institutions towards the role and scope of the internal audit. The study used sample of 17 public universities and 49 private universities in Malaysia and variables used by Gordon and Fischer were adopted for this study. Results revealed that a substantial number of private institutions of higher education do not have an internal audit function. The study also indicated that the management of both types of institutions have similar perceptions on the role of internal auditors and the important audit areas as there are no significant differences between public and private institutions of higher education.

The study limitation according to Zamzulaila *et al.*, was that it only examines whether the scope of internal audit covers the areas mentioned by treasury circular or the IIA Guideline. It ignored the extent to which the higher education institutions comply with both guidelines. It is, therefore, suggested that future research could consider the degree of compliance to the above. Katz (2009) investigated the specific factors associated with internal audit effectiveness in the Greek business environment. Empirical evidence was collected by means of a mailed survey using Factor Analysis (FA) and Regression Analysis (RA) in order to illustrate the gathered information.

The findings indicated that the main factors affecting internal audit effectiveness are: quality of internal audit, competence of internal audit team, independence of internal audit and management support. The results also reveal that independence of internal audit is the foundation of internal audit effectiveness, as it is the most crucial factor in their model. Regarding the independence, it can be argued

that independence of internal auditors is the most important factor affecting internal audit effectiveness according to the present research (Goodwin & Yeo (2001).

Quite similar were the findings of Alzeban and Gwilliam (2014) who argue that independence is one of the most important factors in their research. Finally, similar with the Yee *et al.* (2008) management support is also positively associated with internal audit effectiveness. Contrary to the findings of the present study, Cohen and Sayag (2010) and Alzeban and Gwilliam (2014) found that management support was the most important factor affecting internal audit effectiveness. However, similarly to the study of Alzeban and Gwilliam (2014), management support seems to be positively and significantly associated with all other factors. Overall, this study adds to the extant literature on internal audit by examining the factors of internal audits effectiveness. The study also provided practical insights for regulators and internal audit practitioners, suggesting that internal audit effectiveness is of major importance for Greek.

3.0 METHODOLOGY

This section explains the research methodology employed to carry out the study. The specific issues discussed in this section pertains to the research design, data collection methods and data analysis techniques. The chapter also discusses the underlying principles and rationale for the methods used for the study.

3.1. Research Design

Research design is among the most vital considerations for every research work. It is the philosophy or the general principle that guides the study and is a holistic approach to investigating the topic under study (Dawson, 2002). The research design will be discussed in two sub-sections as follows:

3.1.1. Research method

The study adopts interpretive qualitative method as the study fits in the following list of defining characteristics. The study: *"focuses on interpretation rather than quantification; an emphasis on subjectivity rather than objectivity; flexibility in the process of conducting research; an orientation towards process rather than outcome, a concern with context-regarding behavior and situation as inextricably linked in forming experience; and finally, an explicit recognition of the impact of the research process on the research situation."* (Cassell & Symon, 1994, p. 9)

The study attempts to gain an understanding of how internal auditors construct their roles and the underlying reasons and motivations for those construction. Lindlof and Taylor (2002) assert that qualitative studies focus on social practices and meanings of people in a specific historical or cultural context which this study seeks to examine. Creswell (2014, p.31) maintains that qualitative research is an approach for exploring and understanding the meaning individuals or groups ascribe to a social or human problem.

The process of research involves emerging questions and procedures, data typically collected in the participant's setting, data analysis inductively building from particular to general themes and the researcher making interpretations of the meaning of the data. According to Wimmer and Dominick (2011) and Headlam and MacDonald (2009) the aim of qualitative research is its ability to give a complete, detailed description of what is observed.

From the above, it can be stated that qualitative researchers are interested in understanding how people construct the meanings they give to their experiences and the world at large. The study is grounded on the qualitative method of data analysis because its interest is in studying how internal auditors construct their roles and how other stakeholders perceive them to be.

3.1.2. Research Approach

This study employs the Case Study method. Gall, Gall and Borg (2007) define case study as the in-depth study of one or more instances of a phenomenon in its real-life context that reflects the perspective of the participants involved in the phenomenon. According to Punch (2005), case study aims to understand a particular case in detail, and in its natural setting, recognizing its complexity and its context. It also has a holistic focus, aiming to preserve and understand the wholeness and unity of the case.

The selection of a research design is mostly dependent on the nature of the research problem or the issue being addressed, the researcher's personal experiences, and the audience for the Study (Yin, 2012). Research design can then be described as a strategy, plan, and a structure of conducting a research project (Yin, 2012). In other words, it is the logical structure of the inquiry. The function of a research design is to ensure that the evidence obtained enables us to answer the initial question as unambiguously as possible. That is to say, in research, the issues of sampling, method of data collection (e.g. questionnaire, observation, and document analysis), and design of questions are all subsidiary to the matter of 'What evidence do I need to collect?' (Yin, 2012).

Typically, the case study researchers neither aim at discovering generalisable truth, nor look for cause-effect relations as quantitative researchers do, instead, they focus on describing, explaining and evaluating a phenomenon (Cohen, Manion & Morrison, 2007). To achieve these aims requires the researchers to spend adequate time in the context of the study to collect extensive data using multiple instruments to develop in-depth understanding of the phenomenon under study. Since this study focuses on vital facts on the roles of internal auditors; their underlying reasons and motivations, opinions, attitudes, behaviours and provides information on which sound conclusions would be drawn, the researcher deemed this research design very appropriate for conducting the study because it helps in getting insights into issues in their natural setting.

3.2 Data Collection Techniques

As mentioned earlier, the study was based on interpretivist approach. The interpretivist approach is based on the naturalistic approach of data collection such as interviews, observations and analysis of existing texts (Myers, 2008). These methods ensure an adequate dialog between the researcher and respondents in order to collaboratively construct a meaningful reality (Myers, 2013). Therefore, Primary data and secondary data were used for this study. Primary data was derived from responses of participants through interviews and non-participatory observations. Secondary data was gotten from publicly available documents.

3.2.1. Interviews

The interview sessions were mostly face-to-face and via mobile phones. The semi-structured interview method was most appropriate because it allows more and greater depth information from respondents (Kothari, 2004). It also allows a researcher to organize his thoughts through proposed questions and further ask questions based on the responses from respondents for greater depth information about the respondents' responses (Myers, 2013). It is important to note that this would not have been possible if structured interview or questionnaires were used as they would have limited the explanations to be given by respondents (Myers, 2013).

Second, the interview session also allowed for clarity of any ambiguity to any response by the respondents and also enables follow-up questions for more clarifications (Myers, 2013). This would not have been possible if questionnaires were used. Third, it allows assessment of respondents' posture and facial expressions to make an impression about the responses from the respondents (Myers, 2013) and this greatly helped in the analysis. Finally, it also allowed the flexibility to change or adjust questions when the respondent is not comfortable with the nature of questions asked (Cassell & Symon, 1994).

3.2.2. Publicly Available Documents and the Internet

For the purpose of this research, publicly available document was used to complement the interviewed data thereby benefitting from the advantages of data triangulation (Blaike, 1991). The use of relevant publicly available documents on internal auditing provided an insight and understanding of internal audit practices. The internet was also employed extensively for up-to-date materials on the topic. The documents used are the internal audit agency act and Principles of internal auditing.

3.2.3. Population and Sampling Techniques

According to Neuman (2007), population represents all the cases of people, institutions or organizations of interest to the researcher whiles the Target population are the specific cases of people, institutions or organization within a population that the researcher intends to study. A sample on the other

hand is the subset of the target population for which inferences can be made about the population based on the sample. Similarly, Latham (2007) defined sampling as the method used to obtain research information where only a representative of the population is selected.

The Target population of this current study is over two thousand internal auditors employed within the Ghana Audit Service. Per the objectives of this study, the purposive sampling technique was employed. Lindlof and Taylor (2002) posit that purposive sampling refers to the sites or cases chosen because there may be good reason to believe that what goes on there is critical to understanding some processes or concepts or to testing and elaborating some established theory. Furthermore, a purposive sample includes respondents or subjects that are selected for possessing specific characteristics, thereby eliminating those that fail to meet the criteria (Yin, 2012).

The general assertion of purposive sampling which is at the core of qualitative research is that participants are available to provide data for the study. Internal auditors for the study were selected based on their qualifications, experiences, the number of years they have worked as internal auditors and ease of accessibility. Also, the respondents were chosen based on the fact that they have access to rich information that is beneficial to the study.

3.2.4. Data Collection Process and Period

Face-to-face and phone interviews were conducted for this study. Purposeful selection was done to meet the research objectives. The Table below shows the date of interview, the name of person interviewed, the respondent's qualification, number of years worked and the duration of the interview.

Table 1: Schedule of Interviews

#	Date	Name (Pseudonym)	Qualification	Position	Number of years worked	Duration
1	1/04/2019	Mr. Alex	Accounting, ICA	Internal Auditor	10	45 minutes
2	22/04/2019	Mrs. Liza	Accounting	Internal Auditor	6	23 minutes
3	05/05/2019	Mr. Bones	Human resource and Marketing	Chief Director	22	20 minutes
4	20/05/2019	Mrs. Mould	Finance	Finance Director	15	30 minutes
5	22/05/2019	Mr Alex	Accounting, ICA	Internal Auditor	10	15 minutes
6	28/05/2019	Mrs. Liza	Accounting	Internal Auditor	6	20 minutes
7	6/06/2019	Mrs. Mould	Finance	Finance Director	15	16 minutes

3.4. Ethical Considerations

Respondents are often apprehensive when it comes to giving information, especially in business situations. Therefore, an imperative consideration in academic research is the issue of ethics. (Malhotra & Birks, 2007). The researcher, in accordance with this, will take steps to make sure that no respondent or any participant in this research is offended in any way. The following are some of the ethical issues considered during the research.

Firstly, permission was sought from internal auditors and other stakeholders through the use of introductory letters to solicit approval, therefore, no respondent was forced to grant the interview without knowing the purpose of it. Also, the respondents were assured of the fact that the study is only for the purposes of academics and not for any other purpose that will conflict with their interest. In some cases, participants were encouraged to complete the interview section due to their tight busy schedule, though they were free to stop participating. Finally, they received assurance that Information will be reported in a way that will not disclose their identity –thus, confidentiality will be ensured

3.4 Data Analysis

Data from the interviews was transcribed and after immersion into the data, themes were developed to make meaning out of it (Creswell, 2008). The raw data gathered from respondents were processed and analysed. The data was put in themes in order to extract the meanings inherent in respondents' responses. The objectives of the research were the basis of the themes. The transcribed interviews were read and reread to ensure that all the salient issues as per the research objectives were brought to the fore.

This analysis follows the five phases of thematic analysis identified by Braun & Clarke (2006). He stated that thematic analysis involves: Familiarisation with data, Coding, Determination of themes, Defining and establishing relationship among themes, and producing the report.

3.5 Validity and Reliability of the Study

The quality of every research work is very essential; researchers must therefore consider the reliability and validity of a research (Joppe, 2000). The extent to which results are consistent over time and an accurate representation of the total population under study is referred to as reliability and if the results of a study can be reproduced under a similar methodology, then the research instrument is considered to be reliable.

Joppe (2000) indicates that validity determines whether the research truly measures that which it was intended to measure or how truthful the research results are. In other words, does the research instrument allow you to hit "the bulls eye" of your research object? Researchers generally determine validity by asking a series of questions, and will often look for the answers in the research of others. The researcher acknowledges the subjectivity of respondents, their opinions, attitudes and perspectives together contribute to a degree of bias.

Therefore, as Gronlund & Linn (1990) postulate, the issue of validity in this study was seen as a matter of degree rather than as an absolute state. This underpins the efforts to minimise invalidity and maximise validity. In the process, the researcher conceded to replace certainty with confidence in the results obtained and that, as reality is independent of the claims made for it, the accounts for reality in this study was only a representation of that reality rather than a reproduction of it.

Considering internal validity, which according to Cohen et al (2007), seeks to demonstrate that the explanation of a particular event, issue or set of data which a piece of research provides can actually be sustained by the data, the researcher used a mechanical means to record, store and retrieve data collected from the field.

4.0 DATA ANALYSIS

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

4.1 Preparation of partial and biased reports

Most often, internal auditors do not prepare full report of their findings. They produce reports that mostly favour management actions. It therefore becomes difficult for external auditors to rely on these biased reports for expressing opinion on the activities of the organization. This was evident as respondent 3 pointed out that, *'Me as an auditor, I don't rely on their work. Even sometimes you ask of their report and it is a problem. Consistently, I have never had three quarterly reports within a year from an internal auditor. Even our last assignment it was only one quarter. It means that the internal audit is not functioning effectively'*

Brown (1983) identifies work performance and nature of report prepared by internal auditors as the most important factor external auditors consider before relying on their works. Schneider (1984) also considers work performance as the most important and objectivity at second place. This proves that the perception that internal auditors prepare partial and biased reports will not make external auditors trust their works. External auditors are likely to ignore internal auditors report and conduct full investigation of events and activities of the firm.

4.2 Too much involvement in management duties that compromise their objectivity

Internal auditors are supposed to be separated from the normal activities of the organisation so that their roles are not affected by familiarity, self-interest and self-review threats. However, it was evident that external auditors perceive that internal auditor are used by management for management activities. Respondent 1 explained that, *'Some of them even take up day to day management activities like issuing fuel coupons which ordinarily should be done by management. Some of the internal auditors actually write the books for the accountants'*

Involving internal auditors in normal management activities is likely to compromise the objectivity of internal auditors. This makes their works unreliable. According to Brown (1983), objectivity is the most important factor that external auditors consider in reliance of the works of internal auditors. Abdel-Khalid, Snowball and Wragge (1983) also regards independence of internal auditors as the most important reliance factor. However, involving internal auditors in management functions affect objectivity.

5.0 CONCLUSION

The study reveals that internal auditors play several roles in public sector entities. The study reveals that internal auditors play oversight responsibilities, assess internal controls, advise management on risk management policies, ensure the organization follows regulations and brings out quality financial report. However, there are various challenges that confront internal auditors in the performance of their duties. Firstly, internal auditors are taken for granted by management. Management do not implement the recommendations of internal auditors because they are not obliged to do so or do not have the power to pursue the revelations from audit findings. Secondly, internal auditors lack independence from management. For audit work to be effective and free from bias, auditors are supposed to be independent both in appearance and mind. However, internal auditors heavily depend on management for salary determination, employee benefits and resources to do their work. This is likely to impede their judgement and objectivity.

Moreover, internal auditors are seen as incompetent. Internal auditors are appointed by management. With the intention of reducing cost, management is likely to select unqualified people as internal auditors. Lack of necessary skills, experience and qualification is likely to lead to poor performance. Again, internal auditors have defined scope of work with limited power. Unlike external auditors, internal auditors are restricted in terms of scope of work and authority. This restriction has the ability to make them ineffective as management has the power to control their scope of work.

The recognition and lack of support for internal auditors affect the reliance on the work of internal auditors and for that matter the ability of internal auditors to fulfill their responsibilities in ensuring proper risk and financial management. These challenges are likely to undermine the position and performance of internal auditors. Again, the internal auditors are not motivated to be effective in delivering their core mandate of checking controls of the organization since they are aware that it will again be reviewed by a third party. It also means that management is wasting its resources on employing internal auditors since they are not helping in reducing the cost incurred on external auditors. The neglect of internal auditors '

works by external auditors means that all processes must be redone by the external auditor which is likely to increase expenses on the external auditors.

It is evident from the findings that stakeholders mostly do not rely on the work of internal auditors. This is as a result of some inadequate support given to internal auditors to ensure audit effectiveness. This situation has resulted in full audit by external auditors during their engagement with public institutions. This shows that the intention of setting internal audit offices in various public institutions has not been achieved

In dealing with implications of the study, management should take the work of internal auditors seriously by implementing their recommendations. They should also involve internal auditors in cases involving application of laws such as procurement processes. Management should also ensure that internal auditors' independence is protected and given the necessary support to function effectively. Internal auditors should also ensure that they embark on continuous professional development by equipping themselves with the necessary skills and qualifications. Again, management should give unrestricted access of all organizational information to internal auditors so that they can work without restriction.

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