

**AN ASSESSMENT OF THE SERVICE QUALITY RENDERED TO STUDENTS OF
CHRISTIAN SERVICE UNIVERSITY COLLEGE**

BASSIRU GAMBO MOHAMMED

BOATENG KWASI AGYENIM

PATRICIA KONADU

AMA KONADU KANKAM

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DECLARATION

We hereby declare that the submission is our own work towards the BBA Administration (Accounting) and that to the best of our knowledge it contains no material previously published by another person nor material which has been accepted for the award of any degree of the University, except where due acknowledgement has been made in the text.

NAME	INDEX NUMBER	SIGNATURE	DATE
BASSIRU GAMBO MOHAMMED	10135180
BOATENG KWASI AGYENIM	10136126
PATRICIA KONADU	10135086
AMA KONADU KANKAM	10135082

Certified by

STEPHEN ALEWABA

(Supervisor)

Dr. Kwaku Ahenkorah

(Head of Department)

ABSTRACT

Auditing effectiveness has become one of the main centres of attention in business organizations for monitoring organizations operation and activities to avoid financial failure and bankruptcy.

The study was conducted to find out whether there is an efficient and effective internal audit department at ECG which carries out its functions appropriately.

The objective of the study was to assess the internal audit process and control system at ECG Ashanti East.

Purposive sampling was used to select the respondent. Descriptive method was used in the study.

According to the findings, internal audit functions that are not frequently practiced and for that matter had low scores were ‘development of work papers from the audit report’ and discussion of recommendations with auditees’. The internal audit function is performed at branch, regional and head office.

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In all, while the above take all the credit, any shortcomings and inadequacies of this study are our sole responsibility.

DEDICATION

This work is dedicated to our dear parents, siblings and wonderful friends for their prayers and support in our education.

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CHAPTER ONE

INTRODUCTION

1.1 BACKGROUND OF THE STUDY

Currently, organisations in both public and private sectors have experienced many new challenges and demands resulting from a combination of a harsh economic climate and rapid developments in technology, market conditions and globalization. As a consequence, internal auditing has increasingly be viewed by regulators, directors of listed companies and governing members of many public sector entities worldwide as a solution to ensure business survival (Ali et al., 2007). Internal auditing is an independent appraisal function established within an organization to examine and evaluate its activities as a service to the organization. The objective of internal auditing is to assist members of the organization in the effective discharge of their responsibilities by furnishing them with analyses, appraisals, recommendations, counsel and information concerning the activities of the organization (Allegrini and D'Onza, 2003).

Auditing effectiveness has become one of the main centres of attention in business organisations for monitoring organisations operation and activities to avoid financial failure and bankruptcy. Apart from the management and board of directors' role of monitoring, a company is expected to have its own independent mechanism of internal auditing activities. Internal auditing activities ensure effectiveness of company's control mechanism by evaluating company's activities and providing control management (Wallace, 1984; Mario, 1993; Dittenhofer, 2001; Felix, 2001). Internal auditing activities add value to better manage corporate resources. Literature maintains that internal auditing has slowly evolved from problem identification to proactive management (Aldhizer and Cashell, 2000; Richards, 2001; Nagy and Cenker, 2002). Allegrini and D'Onza (2003) add that internal audit function includes examining, evaluating and monitoring the adequacy and effectiveness of internal

control. As an independent management function, internal auditing involves a continuous and critical appraisal of the functioning of an entity with a view to suggest improvement thereto and add value to and strengthen the overall governance mechanism of the organisation, including the firm's strategic risk management and internal control system.

Montondon and Fischer (1999) assert that the credibility of the internal audit function is significantly important especially in public entities as they are held responsible to diverse stakeholders compared to private entities. This is consistent with Malaysian Auditor General's report which asserts that internal audit function plays a proactive role as a monitoring mechanism and in examining ongoing projects ("Audit standard not up to mark", 2007). It assists public sector entities in achieving their objectives effectively, efficiently, economically and ethically by providing unbiased and objective assessments. Findings and recommendations from internal auditing become important input for good governance and enable organization to take prompt and appropriate corrective actions to redress identified weaknesses and deficiencies.

Prawitt (2003) argues that internal auditing function is either performed in-house or outsourced; but maintains that there should be sound understanding of the risks that may prevent the organisation from achieving its objectives, in order to plan its work to help measure and mitigate those risks. Adams (1994) describes internal auditor's role as unique, because the auditor monitors the actions of other staff, particularly management working in the same company. Good corporate governance requires sound financial and operational control over the activities of an entity. Therefore, for an effective system of internal controls to exist, a well-managed internal audit department or unit is required, whose activities are strongly supported by both management and other personnel within the organization. In view of this, internal audit is now widely seen as a highly professional and skilled task.

An effective internal audit function adds value and improves an organization's operations (Ahmad et al., 2009). Beckmerhagen, et al. (2004) postulate that audit effectiveness is not only about comparing the audit against the planned objectives, but also the audit process (planning, execution to reporting and follow-up) and resources (auditor independence and competence). According to Sterck and Bouckaert (2006), internal audit function in the public sector is most effective when there is legal requirement for the establishment of internal audit function; strategy for the development of competency of internal audit function staff; support from top management and existence of audit committee; and central unit for the advancement of the internal audit function. A study of a large public sector of a higher educational institution by Mihret and Yismaw (2007) identify factors within an organization that impact on audit effectiveness. The results revealed that organizational setting and the auditors' attributes do not have a strong impact on audit effectiveness. However, internal audit quality and management support are two attributes that strongly influenced the internal audit effectiveness. Annuar et al. (2001) list several important factors such as interpersonal skills, internal auditor's commitment and support from audit committee and board of directors, audit performance and integrity, audit department efficiency, auditing competencies, internal auditor's knowledge on company's business operation and industry and auditor's independence to contribute to effective internal audit. Auditing function can be carried out with sophisticated computer software programs and complex mathematical algorithms to assess, manage and control organisation operations.

1.2 PROBLEM STATEMENT

In Ghana, the adoption of the internal audit function in the public sector has been documented in the Companies Code (1963), Act179 (under review) which introduces the compulsory audit requirements. The appointed auditor (who should be a member of the Institute of

Chartered Accountants and not disqualified by any legislation) is expected to express an opinion on the truth and fairness of the profit and loss account and the balance sheet, both of which should be prepared by the directors and presented to the shareholders at an annual general meeting.

The major difficulties most organizations face in auditing of accounts are whether managers of business (directors) have reported properly to the owners (shareholders) on how their business has been managed and the financial standing of the organisation. The owners expect the report to be error free, not misleading and contain all the relevant information. This is because; many interested parties like bankers, creditors, employees and potential investors use the financial statements for making decisions.

In order to ensure credible financial accounts and reporting, an independent person, referred to as an auditor is required to investigate the report and express his/her opinion. The auditor ensures that financial statements and reports are complete and reliable, objective, free from material misstatements and are relevant to the needs of the users. These problems occur when the financial statements do not comply with the various legislations and standards of auditing. These problems can also occur if relevant information is not made available by management to the auditors to enable him/her to carry out their duties effectively.

In other words, good corporate governance requires sound financial and operational control over activities of the organisation. For ECG to have effective control mechanism in place, internal auditing function should be as independent as possible without obstructions, transparency and easy access to information is also required for effective internal auditing. Unfortunately, internal auditing in the public sectors is faced with several challenges making internal auditing very difficult to carry out. As a result, auditing result tends to be unreliable and not authentic for any meaningful decision making, thereby affecting managerial decisions on the operations of public organisations. Electricity Company of Ghana has recently

received public ridicule and criticisms. The company is criticised for corruption and misappropriation of funds by management and top officials. As to whether there is an efficient and effective internal auditing department which carry out its functions meritoriously without any interruption in the company require further investigation.

1.3 RESEARCH OBJECTIVES

The main objective of our research project is to assess and analyze the challenges of internal auditing in Electricity Company of Ghana, Ashanti East Region. Below are specific objectives the study attempts to measure.

- To assess the internal audit processes and control systems at Electricity Company of Ghana – Ashanti East Region.
- To measure how the internal control systems regarding finance complies with the needed auditing standards.
- To identify the challenges associated with the internal auditing processes at Electricity Company of Ghana – Ashanti East Region.

1.4 JUSTIFICATION OF THE STUDY

This research will give ECG and other public sector enterprises a new perspective on the challenges of internal audit and the benchmark standards of guidelines they can use to make their internal audit more efficient and effective.

This study will help ECG identify inefficiencies in the internal audit practices and will outline a roadmap to address them to improve internal auditing in the company. While improving internal auditing, the result will be reliable for meaningful decision making.

The challenges identified will inform management and stakeholders to find new ways for ensuring effective internal auditing while removing all obstacles to make internal audit

function attractive and easy to carry out. Other public companies can also make use of the study to improve the techniques they employ in the assessment and management of internal audit challenges.

Finally, a study of this kind will serve as a reference material to students and researcher interested in carry out studies in related field.

1.5 RESEARCH METHODOLOGY

The research makes use of both primary and secondary data. Interviews and structured questionnaires are the main tools for gathering the required information. Information was gathered from the Internal Auditors of the Electricity Company of Ghana – Ashanti East Region.

Non-probability and purposive sampling techniques will be employed on the sample set. SPSS will be used to organize the information obtained and create tables and charts to illustrate the findings for easy understanding and interpretation.

1.6 SCOPE OF THE STUDY

Electricity Company of Ghana distributes electricity power supply to its final consumers.

Ashanti East Regional office is located at Dichemso in Kumasi near the Air port roundabout, off the Air port road. Ashanti East Region consist of seven districts. Namely, Mampong, Konongo, Effiduasi, Kwabre, Manhyia, Asokwa, Ayigya.

The Ashanti East Region of Electricity Company of Ghana has an Internal Audit Unit which is in charge of all internal audit functions.

Electricity Company of Ghana Ltd (ECG) is the organization we decided to use as our case study in this research project. The study covers the Ashanti East Region of the company. The study assesses the challenges of internal audit in the organization.

1.7 ORGANIZATION OF THE STUDY

This research project is classified into five chapters and these are as follows:

Chapter one is the introductory part of the study which comprises of background of the study, the problem statement, research objectives, justification of the study, research methodology, scope of the study, limitations of the study, organization of the study and references.

Chapter two is the review of related literature. This reviews literature on auditing, types of auditing, auditing standards and challenges of internal auditing. In chapter three, the method employed to carry out the study is discussed. The chapter covers, population, sample and sampling techniques, data gathering tools and procedures. The chapter basically describes how the study will be carried out.

The results of the study will be presented in chapter four. In this chapter, facts are presented from gathered data. These data are then analyzed to deduce findings for discussion.

In chapter five, which is the final chapter comprises of summary and conclusion. Our recommendations are also made in this chapter.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter examines both the empirical and theoretical literature on internal audit. The chapter discusses evolution of audit, meaning of audit, audit and main types of audit, evolution of internal audit, internal audit, auditing process, audit standards, role of auditing in financial statement analysis, fraud and legal acts, internal control systems and then some of the challenges associated with internal auditing with reference to public sector organization. The chapter will also outline the basic guidance for internal auditors in the public sector organization as suggested by the Institute of Chartered Accountants – Ghana.

2.2 Evolution of Audit

The evolution of auditing is a complicated history that has always been changing through historical events. Auditing always changed to meet the needs of the business environment of that day. Auditing has been around since the beginning of human civilization, focusing mainly, at fighting fraud. As the United States grew, the business world grew, and auditing began to play more important roles. In the late 1800's and early 1900's, people began to invest into large corporations. The Stock Market crash of 1929 and various scandals made auditors aware of deficiencies in auditing, and the auditing community was always quick to fix those deficiencies. The auditor's job became more difficult as the accounting principles changed, and became easier with the use of internal controls. These controls introduced the need for testing; not an in-depth detailed audit. Auditing jobs would have to change to meet the changing business world. The invention of computers impacted the auditors' world by making their job at times easier and at times making job more difficult. Finally, the auditors'

job of certifying and testing companies' financial statements is the backbone of the business world (Early U.S. Auditing in the Late 1800's to Early 1900's).

Auditing has been the backbone of the complicated business world and has always changed with the times. As the business world grew strong, auditors' roles grew more important. The auditors' job become more difficult as the accounting principles changed. It also became easier with the use of internal controls, which introduced the need for testing, not a complete audit. Scandals and stock market crashes made auditors aware of deficiencies in auditing, and the auditing community was always quick to fix those deficiencies. Information Technology has played an important role of changing the way audits were performed and also brought along some difficulties (Early U.S. Auditing in the Late 1800's to Early 1900's).

2.3 Meaning of Audit

A standard definition of auditing according to ISA is an independent examination and expression of opinion on the financial statement of an enterprise. An audit is a process, carried out by an appointed qualified person or body, whereby the records and financial statements of an entity are subjected to independent examination in such detail as will enable the auditor form an opinion as to their 'truth and fairness.

An audit can also be defined as an exercise whose objective is to enable auditors to express an opinion whether the financial statement gives a true and fair view or equivalent of the entity's affairs at the period end and of its profit and loss or income and expenditure for the period then ended and have been properly prepared in accordance with applicable reporting framework (Association of Accounting Technicians, 1999).

To Okai (1996), an audit is the independent examination and expressing of opinion on the financial statement of an enterprise by an appointed auditor pursuance of that appointment and in compliance with any relevant statutory obligation.

2.4 Types of Audit

Basically, there are two main types of audit and these are: external audit and internal audit.

External audit as defined by the Institute of Chartered Accountants, Ghana (ICAG, 2008) is where independent persons are brought in from outside an organization to review the accounts prepared by management. The person brought in from outside the organization is known as the external auditor.

ICAG (2008) describe internal audit as audit perform within the organisation. Unlike external audit where an outsider is asked to perform, internal audit is performed by someone who has been employed full time as a staff of that organisation. The person as part of his or her duties monitors and reports on the running of the company's operations (ICAG, 2008).

2.5 EVOLUTION OF INTERNAL AUDIT

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. With the implementation in the United States of the Sarbanes-Oxley Act of 2002, the profession's growth accelerated, as many internal auditors possess the skills required to help companies meet the requirements of the law.

Internal audit has evolved to meet the needs of business and governmental and non-profit organizations. Originally, demands for internal auditing arose when managers of early large corporations recognized that annual audit of financial statement by Certified Public Accountant (CPA) were not sufficient. A need existed for timely financial records and to prevent fraud. These original internal auditors focused their effort on financial and accounting matters.

2.5.1 Perception about internal audit

The question of whether the profession of internal auditing has evolved must be asked at two levels: the level of fundamental concept and the level of actual practice by audit departments. A historical review and analysis of IIA pronouncements indicates that the profession has evolved only slightly at the conceptual level. About the only significant difference between The ITA's initial Statement of Responsibilities issued in 1947 and the current Statement (revised in 1981 and again in 1990) is the substitution of organization for "management" in defining the client of internal auditing. All other changes, although useful, are less than fundamental in their implications. Of equal interest to our analysis is a determination of what has not changed at the conceptual level.

According to the pronouncements, internal auditing continues to be an internal appraisal activity, serving interests internal to the organization, and functioning over a broad area, including accounting and other operations. What has also not changed is an official view of "independence" based upon the honesty, diligence, and objectivity of the auditor, as well as on the support of management and, more recently, the board of directors.

What can be concluded from the above is that the authoritative view of internal auditing remains pretty much what it has always been. Many pronouncements have been issued, but these have done little more than flesh out the basic vision that was established in 1941.

Although internal auditing does not appear to have changed very much at the conceptual level, it does not follow that the same can be said of internal audit practice. Internal auditing has, in fact, changed dramatically in the field. It appears that our founders' original vision of internal auditing was so forward looking that most of us have been laboring ever since to catch up and what has the process of catching up entailed? Here, it will be useful to borrow from strategic planning theory in establishing criteria for the identification of basic change.

According to strategic planning theory, the most important - and difficult - decisions in economic life are what products to offer and what markets to serve. Anyone doubting this premise of strategic planning has only to reflect on the difficulty he or she experienced in choosing a career and selecting an employer. The strategic planning challenge affects practically every type of economic group, whether it is a corporation, government agency, department, or profession. All of these groups sooner or later must make decisions concerning their product and their market.

How, then, has internal audit practice changed in the past 50 years from the standpoint of product choices and market choices? The answer it turns out to be, is to take the form of three familiar variants of internal auditing and they are listed below:

- ✓ Traditional internal auditing
- ✓ Modern internal auditing
- ✓ "Neo-modern" internal auditing

Traditional Internal Auditing in its earlier form, internal auditing was little more than a quality control which functions in the service of the controller. Internal auditing was typically a modest activity located deep within the controller's department, and its job was to check whether the accounting operations of the organization were being performed correctly.

It is likely that early internal auditors were not conscious of having much choice concerning either their product or their market. Nevertheless, strategic planning theory would say that their main product choice was "accounting quality control" and that their market choice was the controller ([Internal Auditor, June, 1991](#) by [Gil Courtemanche](#)).

2.6 INTERNAL AUDIT

In these difficult times for public sector finances, internal audit and the audit committee have an important role to play in ensuring continuing management effectiveness. Despite budget cuts and reduced staff numbers, management must ensure that controls continue to be effective, risks are managed and standards of corporate governance remain high. Internal audit must respond to these challenges by maintaining a robust, independent and objective stance and ensuring audit work focuses on what is most important in the organization.

The development of modern internal auditing begins with the formation of the Institute of Internal Auditors (IIA) in the USA in 1941. Shortly thereafter IIA chapters were established across the USA and worldwide. Internal audit is now widely seen as a highly professional and skilled task. The original definition of internal auditing as provided by the IIA in its Standards for the Professional Practice of Internal Auditing (SPPIA) in 1978 states is (IIA, 1979):

Internal auditing is an independent appraisal function established within an organization to examine and evaluate its activities as a service to the organization. The objective of internal auditing is to assist members of the organization in the effective discharge of their responsibilities. To this end, internal auditing furnishes them with analyses, appraisals, recommendations, counsel and information concerning the activities reviewed.

In a more recent definition, included in the SPPIA which came into effect on 1 January 2002, the body provides a broader goal for internal auditing. This new definition shifts the focus from one of assurance to that of value added, and attempts to move the profession toward a standards-driven approach with a heightened profile (Nagy & Cenker, 2002; Bou-Raad, 2000; and Krogstad et al., 1999). IIA (2003) definition of internal auditing is an independent, objective, assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a

systematic, disciplined approach to evaluate and improve effectiveness of risk management, control and governance process.

For over half a century now the IIA also published standards and a code of ethics for the practice of internal auditing. Today, these standards and code are in use in thousands of organizations in more than 100 countries, and across all business types and public sectors (Ridley & Chambers, 1998). This is not surprising, since the internal audit standards in particular, also include inputs from outside the United States. As mentioned in the “Introduction” to the SPPIA (IIA, 2003a):

The Internal Auditing Standards Board is committed to extensive consultation in the preparation of the Standards. Prior to issuing any document, the Standards Board issues exposure drafts internationally for public comment. The Standards Board also seeks those with special expertise or interests for consultation where necessary.

Indeed, all who practise internal auditing are expected to understand the standards and code of ethics, and adopt or modify them to suit their own environments. Over the years, these documents have been enriched by research and successive interpretive guidelines and statements, detailing how professional internal auditing should be practiced. Unfortunately, as noted by Ridley and Chambers (1998), many organizations have failed to bring significant change to their internal auditing practices. They state “true, there are now more internal audit units; yet most of their practices are still based on fundamental auditing principles, as developed in the early years of the twentieth century.” They also specifically note that “despite a 1990s focus on rapid change within many organizations, in some internal audit units technology has still not penetrated deeply into auditing practices, while in others internal auditors are still not seen as part of the management team.”

In Ghana, a growing catalogue of organizational failures and mismanagement highlights the need for effective internal audit in both the public and private sectors. While to date there

have been several research reports on the status of internal audit in general, none have specifically probed the nation's public sector. This is despite the well documented requirement that management of public sector organizations should maintain an effective system of internal control including the establishment of an internal audit function (Dowsett & Morris, 1981; Buttery, 1985; Coombs & Jenkins, 1994; Jones & Pendlebury, 2000).

In Ghana this lack of progress in establishing an internal audit function is in spite of the requirement having been published in the Company's code 1963, Act 179 (under review).

Furthermore, such a study is needed to assist the organization to find ways to be more competitive in all sectors of the economy, made more urgent by the implementation of Asean Free Trade Area (AFTA) in early 2003. Internal audit that achieves its potential view may actually be the right instrument for all sectors to achieve such competitiveness. Therefore, all internal audits are to be conducted in compliance with the Code of Ethics and Standards for the Professional Practice of Internal Auditing (issued by the Institute of Internal Auditors) as well as NZS 10011 "Guidelines for Auditing"

2.7 AUDIT PROCESS

Although every audit work is unique, the audit process is similar for most engagements and normally consists of four stages: Preliminary Review, Fieldwork, Audit Report, and Audit Follow-up Review. Your involvement is critical at each stage of the audit process. As in any special project, an audit results in a certain amount of time being diverted from your unit's usual routine. One of our key objectives is to minimize this time and avoid disrupting your ongoing activities (The Trustees of Indiana University - 2010).

The process should be rolled out immediately to improve environmental risk assessment, compliance testing, and sampling. This process is used in both internal and external auditing.

The existing certification audit procedures are mechanical and do not provide the requisite flexibility to the auditor to exercise judgment and innovation in achieving a higher degree of assurance. The techniques used for compliance testing and sampling, needs improvement. For example, the results of compliance testing have limited impact on the sample size for the substantive procedures, and the results of the compliance testing are seldom used to tailor the selection of sample transactions based on an identified pattern of errors. Therefore, the new audit process should be rolled out as early as possible without waiting for the implementation of the New Accounting Model and computerization of the accounting systems. The process spells out the various steps that must be followed whenever an audit has to take place (CEPA Issues Paper No. 10).

The most successful audit works are those in which the Board of Directors and Internal Auditor have a constructive working relationship in our case the Management Team of ECG – Ashanti West. Our (Internal Audit Team) objective is to have your continued involvement at every stage, so that you, our client, understand what we are doing and why. The audit should be completed by a process that provides information on how audit errors are summarized and evaluated against audit materiality. The outline of the process is as follows:

- **Preliminary Review**
 - ✓ Announcement Letter
 - ✓ Initial Meeting
 - ✓ Preliminary Survey
 - ✓ Internal Control Review and
 - ✓ Audit Programme

- **Fieldwork**
 - ✓ Transacting Testing

- ✓ Advice & Informal Communication and
- ✓ Audit Summary
- **Audit Report**
 - ✓ Discussion Draft
 - ✓ Exit Meeting
 - ✓ Formal Draft
 - ✓ Final Report and
 - ✓ Client Comments
- **Audit Follow-Up**
 - ✓ Follow-up Review
 - ✓ Follow-up Report
 - ✓ Internal Audit Annual Report to the Board of Trustees and
 - ✓ The Process: A Collaborative Effort
 - ✓

2.7.1 Preliminary Review

During the preliminary review portion of the audit, we notify you of the audit, discuss the scope and objectives of the examination in a formal meeting with your organization's management, gather information on your important processes, evaluate existing controls, and plan the remaining audit steps.

- **Announcement Letter**

The client is informed of the audit through an announcement letter from the Internal Audit Director. This letter communicates the scope and objectives of the audit team assigned to the project.

- **Initial Meeting**

During this meeting, the client describes the unit or system to be reviewed, the organization, available resources (personnel, facilities, equipment, funds), and other relevant information. The internal auditor meets with the senior officer directly responsible for the unit under review and any staff members s/he wishes to include. It is important that the client identify issues or areas of special concern that should be addressed.

- **Preliminary Survey**

In this phase the auditor gathers relevant information about the unit in order to obtain a general overview of operations. He talks with key personnel and reviews reports, files, and other sources of information.

- **Internal Control Review**

The auditor will review the unit's internal control structure, a process which is usually time-consuming. In doing this, the auditor uses a variety of tools and techniques to gather and analyze information about the operation. The review of internal controls helps the auditor determine the areas of highest risk and design tests to be performed in the fieldwork section.

- **Audit Program**

Preparation of the audit program concludes the preliminary review phase. This program outlines the fieldwork necessary to achieve the audit objectives.

2.7.2 Fieldwork

The fieldwork concentrates on transaction testing and informal communications. It is during this phase that the auditor determines whether the controls identified during the preliminary review are operating properly and in the manner described by the client. The fieldwork stage concludes with a list of significant findings from which the auditor will prepare a draft of the audit report.

- **Transaction Testing**

After completing the preliminary review, the auditor performs the procedures in the audit program. These procedures usually test the major internal controls and the accuracy and propriety of the transactions.

- **Advice & Informal Communications**

As the fieldwork progresses, the auditor discusses any significant findings with the client. Hopefully, the client can offer insights and work with the auditor to determine the best method of resolving the finding. These communications are usually by e-mail. An audit observation form is sent via e-mail to ensure full understanding by the client and the auditor of the potential finding. In the response section on the form, the client should explain how findings will be resolved and include an implementation timetable. Our goal: No surprises.

- **Audit Summary**

Upon completion of the fieldwork, the auditor summarizes the audit findings, conclusions, and recommendations necessary for the audit report discussion draft.

2.7.3 Audit Report

Our principal product is the final report in which we express our opinions, present the audit findings, and discuss recommendations for improvements. To facilitate communication and ensure that the recommendations presented in the final report are practical, Internal Audit discusses the rough draft with the client prior to issuing the final report.

- **Discussion Draft**

At the conclusion of fieldwork, the auditor drafts the report. Audit management thoroughly reviews the audit working papers and the discussion draft before it is presented to the client for comment. This discussion draft is submitted to the client for review before the exit conference.

- **Exit Meeting**

Internal Audit meets with the unit's management team to discuss the findings, recommendations, and text of the discussion draft. At this meeting, the client comments on the draft and the group work to reach an agreement on the audit findings.

- **Formal Draft**

The auditor then prepares a formal draft, taking into account any revisions resulting from the exit conference and other discussions. When the changes have been reviewed by audit management and the client, the final report is issued.

- **Final Report**

Internal Audit distributes the final report electronically to the unit's operating management, the unit's reporting supervisor, the university Chief Financial Officer, the university Chief Accountant, the university President, the Board of Trustees, and other appropriate members of senior university management. This report is primarily for internal university management use.

- **Client Comments**

Finally, as part of Internal Audit's self-evaluation program, we ask clients to comment on Internal Audit's performance. This feedback has proven to be very beneficial to us, and we have made changes in our procedures as a result of clients' suggestions.

2.7.4 Audit Follow-Up

Within approximately six months of the final report, Internal Audit will perform a follow-up review to verify the resolution of the report findings.

- **Follow-up Review**

The client response letter is reviewed and the actions taken to resolve the audit report findings may be tested to ensure that the desired results were achieved. All unresolved findings will be discussed in the follow-up report and reported to the university President.

- **Follow-up Report**

The review will conclude with a follow-up report which lists the actions taken by the client to resolve the original report findings. Unresolved findings will also appear in the follow-up report and will include a brief description of the finding, the original

audit recommendation, the client response, the current condition, and the continued exposure to Indiana University. A discussion draft of each report with unresolved findings is circulated to the client before the report is issued. The follow-up review results will be circulated to the original report recipients and other University officials as deemed appropriate.

- **Internal Audit Annual Report to the Board of Trustees**

In addition to the distribution discussed earlier, a summary of all audits performed during the fiscal year, including follow up reports, are communicated to the Indiana University Board of Trustees as part of the Internal Audit Annual Report.

- **The Process: A Collaborative Effort**

As we have pointed out, during each stage in the audit process--preliminary review, field work, audit reports, and follow-up--clients have the opportunity to participate. There is no doubt that the process works best when client management and Internal Audit have a solid working relationship based on clear and continuing communication.

Many clients extend this working relationship beyond the particular audit. Once we have worked with you on a project, we have an understanding of the unique characteristics of your unit's operations. As a result, we can help evaluate the feasibility of making further changes or modifications in your operations.

(The Trustees of Indiana University-Internal Audit Process, revised April 2010)

2.8 AUDITING STANDARDS

Auditing Standards (find the definition.....)

- Audit planning,
- Audit supervision,
- Reviewing internal controls,
- Reviewing compliance with laws,
- Ensuring adequate audit evidence is collected,
- Analyzing whether the financial statements accord with accounting standards,
- Preparing audit opinions,
- Reporting on fraud, and
- Reporting on compliance.

2.9 ROLE OF INTERNAL AUDIT IN FINANCIAL STATEMENT ANALYSIS

In terms of planning, the external auditors should perform an assessment of the internal audit function if they consider that it may be possible and desirable to rely on certain internal audit work in specific audit areas for the purpose of the external audit of the financial statements (ICAG, 2008). This aspect seeks to assess continuous improvement in two ways, first in relation to the internal audit function itself and second in relation to the organisation. Internal audit should continuously improve its own capabilities through ongoing review of its performance, providing training to staff, and conducting quality assessments and peer reviews. Periodically, an independent external quality assessment should be conducted to gain an objective view of how internal audit is performing against internal audit standards. The performance and role of the audit committee should be included in these reviews, the results of which should be used as benchmarks for further improvement objectives. The Institute of Chartered Accounts – Ghana, 2008 made mention of the external auditor placing

a reliance on the work of an internal auditor, before assessing the internal auditor and his work in these areas:

2.9.1 Organizational Status

This involves assessing internal audit's specific status in the organization and the effect this has on its ability to be objective. Ideally, the internal auditor reports to the highest level of management, preferably the Board of Directors or Audit Committee. External auditors should consider any constraints or restrictions placed on internal audit.

2.9.2 Scope of function

External auditors should assess the nature and extent of the assignments which internal audit performs. They should also consider whether management act on internal audit recommendations and how this is evidenced.

2.9.3 Technical Competence

External auditors should ascertain whether internal audit work is performed by persons having technical training proficiency as internal auditors. External auditors may, for example review the policies for hiring and training the internal audits staff and their experience and professional qualification.

2.9.4 Due Professional Care

External auditors should assess internal audit work is properly planned, supervised, reviewed and documented. The existence of adequate audit manuals, work programmes and working papers may be considered.

The Ministry of Finance and Economic Planning and the Internal Audit Agency also made mention of another role of the internal auditor as dealing with the physical flow of funds, reporting and auditing with the aim of ensuring that revenues collected or resources allocated are spent in accordance with the legal mandate of each public institution. The accounting system provides government an institutional memory of all its financial transactions.

2.10 FRAUD AND LEGAL ACTS

Statement on Auditing Standards No. 99 (SAS 99), Consideration of Fraud in a Financial Statement Audit defines fraud as an intentional act that results in a material misstatement in financial statements. There are two types of fraud considered: misstatements arising from fraudulent financial reporting (e.g., falsification of accounting records) and misstatements arising from misappropriation of assets (e.g., theft of assets or fraudulent expenditures).

When fraud occurs these issues are made known:

- There is an incentive or pressure that provides a reason to commit fraud
- There is an opportunity for fraud to be perpetrated (e.g., absence of controls, ineffective controls, or the ability of management to override controls)
- The individuals committing the fraud possess an attitude that enables them to rationalize the fraud.

2.11 INTERNAL CONTROL SYSTEMS

Differences of opinion have long existed about the meaning and objective of internal control. Many people interpreted internal control as the steps taken by business to prevent fraud misappropriation of assets and fraudulent financial reporting.

Whittington and Pany, (2004), in their own way gave their definition as:

Internal control is a process, affected by the entity's board of directors, management and other personnel designed to provide reasonable assurance regarding the achievement of objectives in the following categories;

- Reliability of financial reporting
- Effectiveness and efficiency in reporting
- Compliance with applicable laws and regulation

Millichamp (2002) also defines internal control is a whole system of controls, financial and otherwise established by the management in order to carry on the business of the enterprise in an orderly and efficient manner, ensure adherence to management policies, safeguard the assets and secure as far as possible the completeness and accuracy of the records.

According to the AAT study manual (1999), internal control policies and procedures are designed to provide management with reasonable assurance that the goals and objectives it believes important to the entity will be met.

According to Romney and Stenbert in Accounting Information Systems, eleventh ed. Chp. 6, pp 222)

Internal control is the process implemented by the board of directors, management, and those under their direction to provide reasonable assurance that the following control objective are achieved:

- Safeguarding assets, including preventing or detecting on timely basis the unauthorized acquisition, use, or disposition of material company assets.
- Maintaining records in sufficient detail to accurately and fairly reflect company assets.
- Providing accurate and reliable information.
- Providing reasonable assurance that financial reporting is prepared in accordance with GAAP (General acceptable Audit Practices.)

- Promoting and improving operational efficiency, including making sure company receipts and expenditure are made in accordance with management and directors authorization.
- Encouraging adherence to prescribed managerial policies.
- Complying with applicable laws and regulation.

The various definitions above will now enable the group to explain internal control to mean the policies and procedures put in place by management to prevent fraud and detect errors and also to achieve effective and efficient result. Internal controls therefore perform these three major functions in an organization – preventive control, detective control and corrective controls in other for internal controls to be more effective and efficient.

It is important that controls systems are viewed, but not as separate systems in their own right, but as control mechanisms that should be integrated into the systems serving the entire cycle of planning, budgeting, management, accounting, and auditing. The systems should support the effectiveness and integrity of every stage of this cycle and provide continued feedback to management.

2.12 CHALLENGES OF INTERNAL AUDIT

Comment:

1. The evolution is too many merge them to have only one as “development or history of internal audit”.
2. Emphasis should be on internal audit, since the topic centers on this
3. Consider these topics: determinants of audit effectiveness, internal audit process, importance of internal audit, functions of internal audit, qualities of internal auditor
4. Consult the materials given you for information on the above suggestion.

e.g. Internal audit parameters like receipt audit, commercial audit etc Ref: iCISA article qualities of internal auditor/ functions or duties of internal audit – ref: check page 8 of imp article sent to you.

Be consistent with your citation and references

e.g. Eugenia (2011) or Eugenia (2011, p. 11) – stick to one throughout the work, not combination.

CHAPTER THREE

METHODOLOGY AND ORGANISATIONAL PROFILE

3.1. INTRODUCTION

The chapter present methodology employed in the research work, population, sampling, data collection method, data gathering tools and the source of data. The final section of this chapter will tackle the organizational profile of Electricity Company of Ghana, Ashanti East.

3.2. RESEARCH STRATEGY

In gathering data for this study, both qualitative and quantitative tools were used. This is because the researcher wanted to avoid the disadvantages of the two methods in order to strengthen the research. The qualitative method permits in-depth and detailed study of phenomenon of smaller numbers and takes descriptive approach (Walliman, 2001). Quantitative method on the other hand requires the use of standardised instruments, so that the varying perspectives and experiences of people can fit a limited number of predetermined response categories, to which numbers are assigned and measured statistically.

3.3 POPULATION SAMPLE

Purposive or judgmental and Snow Ball samples were used for gathering relevant data. Due to the purpose of the study, these sample techniques were deemed relevant, because the respondents knowledgeable about the topic were intentionally selected for the study. By limiting sample selection to individuals who meet these criteria, you are better able to focus on a central issue that is relevant to all of them (Opoku-Amankwa, 2002).

3.4. DATA COLLECTION METHOD

The data of this study was collected by means of questionnaires sent to all Internal Auditors in the audit department at the Electricity Company of Ghana – Head Office, Accra. Questionnaires were distributed to internal auditors in Accra, because they are the auditors who visit the various regions every quarter to audit the various accounts. The internal audit at ECG, Ashanti east was interviewed to supplement the questionnaire survey. This method allows bridging the deficiencies in the data gathering instruments (Opoku-Amankwa, (2002). In-depth interviews, content analysis and evaluation are among the many formal approaches that were used. By limiting ourselves to a case study of one public company, it made the size of the sample population and the amount of data that we were dealing with much more manageable.

3.5 DATA GATHERING TOOLS

3.5.1 Questionnaire Administration

Questionnaires will be employed in this study as a mean of data collection for the reason that questionnaire method allows for confidentiality, which promote frankness and is widely used in auditing research (Smith et al., 2001). The first part of the questionnaire will comprise of some demographic questions concerning gender, age, highest educational level, professional qualification and experience of the respondent. The second part of the questionnaire will also consist of questions related to the respondent's workplace. The third section of the questionnaire seeks information relating to five issues namely, the effective use of the internal controls in the organization, the compliance of internal controls to that of the accounting standards, the main auditing process available in the organization, main problems normally faced by the internal auditors at ECG – Ashanti West and the important factors that might contribute to the effectiveness of internal audit function. In this particular section, five

open-ended questions will be directed to the respondents to solicit their opinions on those issues and the questions are as follows: (1) “Does a reputable organization such as yours have internal control systems? If yes kindly outline some of them and how effective is your control systems?” (2) “What is the level of compliance of the control systems to that of the accounting standards?” (3) “Different internal audit process exist, what is the process available in your organization?” (4) “As an internal auditor in a public sector organization, what are the main problems normally faced by the internal audit function?” and (4) “In your opinion, what are the important factors that will contribute to the effectiveness of an internal audit function?”

Open-ended questions will be applied in this study to obtain elaborate answers and opinions. The main advantages of the open-ended question is that the respondent’s answer is not influenced unduly by the questionnaire, and the verbatim replies from respondents can provide a rich source of varied material which might have been untapped by categories on a pre-coded list (Veal, 2005). Open-ended questions were analyzed by examining the themes of responses to the key questions identified earlier in the study. Through the themes, the key concepts are used to explain the findings of the study.

3.5.2 Interviews

According to Wimmer and Dominick (2000), interviews are used to obtain more dynamic, detailed information on a question within a relatively short time period. Also, some information which cannot be obtained through questionnaire survey can be obtained through interviews. The information obtained from the interview is used to explain the results obtained from questionnaire survey findings.

Structured interview was used by the researcher to collect information on the internal audit practices at ECG. This is because the researcher had specific, predetermined agenda with specific questions to guide and direct the interview. Key informant interviews were conducted among three internal auditors: one at West branch of ECG in Kumasi and two at headquarters. Questions like ‘why?’ and ‘how?’ were asked to help enrich, interpret and support the questionnaire survey. This is consistent with Kumar et al.’s (1993) claim that the selection of key informants knowledgeable about the problem being researched minimises response error.

3.6. SOURCE OF DATA

The data of this study will be collected from the internal audit department of the Electricity Company of Ghana – Ashanti East. The internal audit staffs of the various regions are all stationed at the head office in Accra and that is why our source of data must come from there. Secondary data will also be collected from both published and unpublished materials such as internet, intranet, journals, news papers, books, articles and research papers.

3.7. METHOD OF DATA ANALYSIS

Data was analyzed with the help of SPSS to perform descriptive test to explain the data gathered. The analysis is support with tables and chart developed from Microsoft Excel. The researchers adopted this analytical technique because it helped us to access, manage and analyze all data gathered.

3.7. ORGANIZATIONAL PROFILE – Get the information from Airport

roundabout.

The region is managed by a seven (7) top management team which is made up of the following:

1. Regional Director
2. Regional Engineer
3. Regional Accountant
4. Regional Commercial Manager
5. Regional Administrative Manager
6. Regional Materials & Transport Manager
7. District 'A' Managers

The Top Management Team of the company has oversight responsibilities over the day-t-day administration of the company. Their functions involve strategic decision making and planning that determines the goals objectives of the organization.

The Head office of the company is located at Accra with branches (regions) at Accra, Kumasi, Volta, Eastern, Western and Central regions. The northern sector is managed by the Volta River Authority. The location of the regional office and its district offices offer an atmosphere that is consistent with its mission providing quality service to its customers in its catchment area.

3.7.1 Vision and Mission Statement

Regional Vision

To be the best in electricity distribution in our operational areas.

Regional Mission Statement

To operate, maintain and distribute electricity supply in the region by providing at all times safe, reliable and quality supply to customers at an economic price.

3.7.2 Goals and Objectives

In order to fulfill the above mission statement, the following shall be the region's goals and objectives:

- Improving customer satisfaction through reduction of customer complaints
- Providing reliable supply of electricity to all customers by meeting the PURC supply reliability bench marks (30hr – outage period / customer / year (urban areas) and using 100hr – outage period / customer / year (rural areas)
- Ensuring accident free operations and maintenance for both staff and the public by strict adherence to ECG Safety and Health Standards.
- Providing accurate and timely information for efficient management decision making.
- Instituting an annual award scheme to reward hardworking and deserving employees as a means to motivate and increase productivity.
- Embarking on customer education programme on all aspects of our business operations.
- Minimizing wastage of construction materials and stationery.
- Reducing technical losses through adoption of standard design and construction practices.
- Improving quality of power supply through voltage improvement programmes and flicker and harmonics reduction.
- To reduce debtor/sales ratio from 166 days in 2007 to 66 days by the year 2011.
- To provide meters to replace all coded faulty meters by the end of year.

- Reduce the number of meters due for check reading from 2816 in June 2007 to 500 by the end of 2011.
- Reduce system losses from 26.77% in June 2007 to 18.00% by 2011.
- Identify and eliminate all illegal connections during the period through effective monitoring.
- Connect all new customers (Residential, Non-residential and Industrial) according to ECG standards.
- Reinforce, rehabilitate and extend the existing networks through Distribution System Upgrading Project (DSUP) and ECG's own improvement programmes.
- Train and develop at least 50% of employees within the plan period to enhance productivity.

3.7.3. Core Values

- We are passionate about our customers
- We want to be the best
- We value each other
- We can be trusted

CHAPTER FOUR

ANALYSIS AND DISCUSSIONS OF FINDINGS

4.1 Introduction

This chapter presents detail information on the field survey. The result of the survey was analysed using SPSS to perform descriptive statistics. Charts to support the findings were built using Microsoft Excel. The findings are organised in accordance with the objectives of the study.

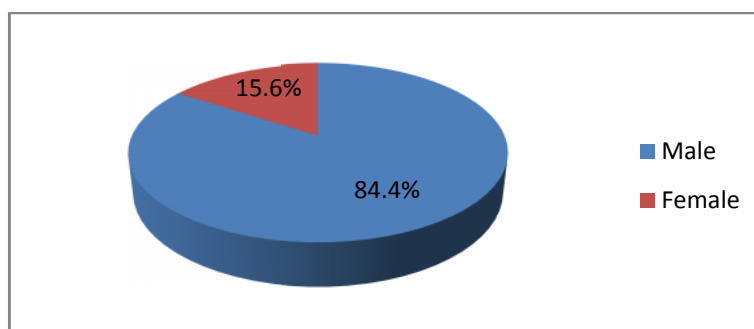
4.2 Response Rate

In order to gather data for the study, both questionnaire and interview were tools used. In all, thirty five questionnaires were administered; fifteen to Account Examination Unit at the regional office, Kumasi and ten to internal audit department at the headquarters. Out of the thirty five questionnaires administered, thirty two were retrieved, representing 91.4% of the total questionnaire. The findings are however based on the retrieved questionnaires.

4.3 Demography

Out of the questionnaire retrieved, 84.4% were male and 15.6% were female (see Figure 3.1).

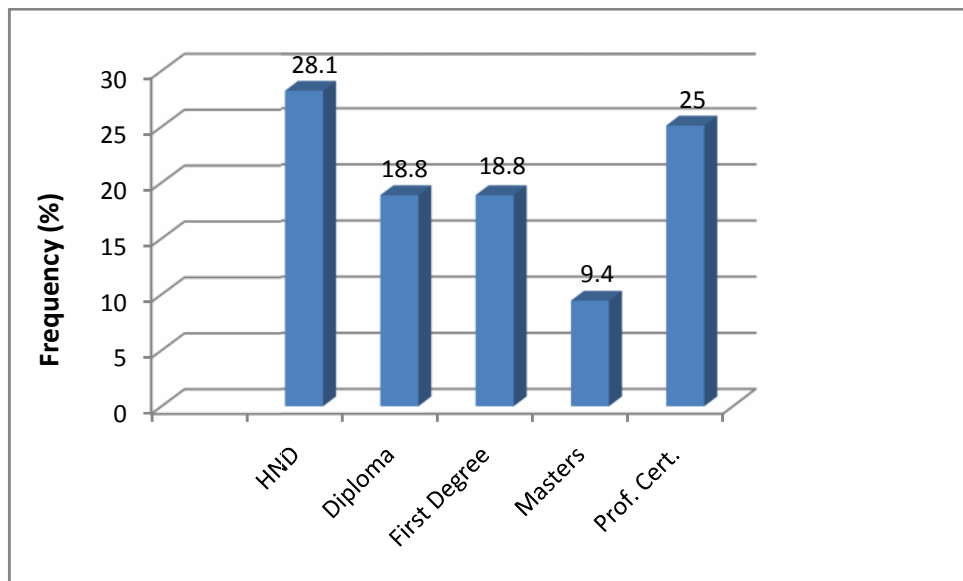
Figure 4.1: Education of participants



Source: Field Survey, 2013

Each of the participants had at least been to school. The participants were holding either professional certificate in auditing or formal academic certificate. With the level of education, 28.1% holds HND, 18.8% holds Diploma and First Degree respectively, 9.4% holds Masters and 25% holds professional certificate as presented in Figure 3.2.

Figure 4.2: Educational background of participants



Source: Field Survey, 2013

Based on the level of knowledge as shown in Figure 4.2, we can say that information obtained from knowledgeable participant thereby making it reliable and valid. The participants had worked with the company for considerable years: 12.5% had worked for 0 – 3 years; 37.5% had work for 4 – 6 years; 31.3% had worked for 7 – 10 years and 18.8% had worked for more than 10 years. About 87.6% of the participants have worked with the company for more than 4 years, indicating that they are well informed about the practices of the company.

Table 4.3: Frequency on the demographic characteristic of participants

Description	Frequency	Percentage
Gender		
Male	27	84.4
Female	4	15.4
Education		
HND	9	28.1
Diploma	6	18.8
1 st Degree	6	18.8
Masters	3	9.4
Professional Cert.	8	25
Number of years worked		
0 – 3 years	4	12.5
4 – 6 years	12	37.5
7 – 10 years	10	31.3
10 above	6	18.8
	N = 32	Percentage = 100

Source: Field Survey, 2013

4.4 Internal Audit Process and Controls at ECG

Internal audit is seen as an integral part of government financial management and as an instrument for improving the performance of the government sector.(Diamond 2002)

In the literature reviewed several activities and controls were identified to be associated with internal auditing. Diamond (2002) opines that each of the broad range of activities of internal audit has different objectives. In order to confirm that these activities are carried out by internal auditors of Electricity Company of Ghana, several items were asked.

Based on the survey, internal auditing activities performed at ECG included the following:

1. Preparation of audit report.
2. Preparation of annual audit plan indicating auditable areas, resources required, and the duration for each of the auditing activities and other relevant documentations
3. Perform follow-up audits on all audit findings after the issuance of audit report.
4. Review prior audit reports and other relevant documentation.
5. Develop working papers
6. Discuss recommendations with auditees
7. Develop recommendations when appropriate
8. Disseminate audit outcome to the appropriate individuals.

A key informant interview indicates that some of the internal audit activities are carried out by the workers of the Account Examination Units at the regional and branch offices. Among the activities included preparation of audit report on cash received and disbursed at the regional level with copies sent to head office for cross examination. The duty of internal auditors at the branch and regional offices who usually work at the account sections of the company is compliance audit. They ensure that company' funds are received and spent in compliance with relevant laws like procurement law. Interview findings show that majority of internal auditing activities are carried out at the headquarters. Internal auditors at headquarters perform both compliance audit and financial audit. While they ensure that purchases and disbursement of funds are right. They also ensure that the use of funds are fairly and accurately represents the financial position of the company.

As part of the internal audit activities, auditor-in-chief prepares annual audit plan showing areas to be audited, resources required and the duration, so that departments and branches are aware while resources are made readily available to aid smooth audit. The interviewees pointed out that audit findings with loop holes or flaws are discussed with the manager who

matters for corrections and clarification. Previous audit reports are usually reviewed to check that errors identified are rectified.

As to the frequency of internal audit activities performed at ECG, participants were asked to rate the internal auditing activities on a five point Likert scale, where 1 – Poor, 2 – Good, 3 – Credit, 4 – Very Good and 5 – Excellent. The responses of the questionnaire items by the participants gave high score to some of the internal audit activities carried out at ECG while others were given low ratings by the participants. Based on the scores, preparation of audit report (total score = 139) is the major internal audit activity carried out at ECG. The company is interested in ensuring that its resources are effectively and efficiently utilised. Therefore preparation of audit report will indicate whether the company's resources were not misappropriated rather was used for the benefit of the company. The second high score item (total score = 134) is the preparation of annual audit plan detailing the auditable areas, resources required for auditing and duration for each of the audit activity and relevant documents. The objective of this internal audit activity is consistent with Diamond (2002) claim that internal audit ensure financial compliance and regularity. Once auditing areas are indicated, it requires managers to make sure no lapses are created. Again, it enables sufficient resourcing for the audit function. The company will make logistics readily available to aid the audit function, since resources needed are stated. The third highest score is given to follow-up audits on all audit findings after the issuance of audit report (total score = 127). This is followed by developing recommendation when appropriate (with total score = 118). The follow-up is done to make sure that all lapses and anomalies identified are rectified as recommended. According to the interview, it helps address all the anomalies identified in the previous audit and ensure compliance to recommendations provided by the report. After the follow-up proceeds a review prior to audit reports and other relevant documentations (with

score = 110) in order to render the audit report as accurate and error free as possible. A prepared audit outcome is then disseminated to the appropriate individuals (total score = 101), which the interview revealed managing director, branch and regional managers of the company as part. Copies of the report are given to stakeholders, branch managers, regional managers and the managing director, so as to get them informed about resource utilisation, purchases, payments and disbursement.

Out of the internal audit activities and processes identified, two had the lowest scores; development of work papers had a total score of 60 and discussion of recommendations with auditees had the least score of 47. These imply that a working paper is rarely developed (score = 60) out of the audit report and outcome. However Diamond (2002) strongly recommends it to serve as a guide in managing the company's resources effectively and efficiently. Again for individuals and managers to adhere to proper practices, it is important that audit outcomes are discussed with them to know where they have gone wrong. Detail scores of auditing activities are displayed in Table 4.2.

Table 4.2 shows the responses of participants on auditing activities in order of frequency. From Table 4.2, four of the internal audit activities did neither get a score of credit nor poor, indicating that these internal audit items were well carried out at ECG. By examining the four questionnaire items, it can be said that effective allocation of company's resources can be achieved through them. The audit report becomes an action plan and working guide for managers and individuals, particularly those in charge of managing the company's logistics. It tells stakeholders areas of much interest to the company and need careful attention, so that the right course of action is taken at the right time to avoid waste. Again, on the table 4.2, three of the internal audit practices at ECG did not get excellence score, implying that though

they are auditing activities, ECG is not given them much attention or view them as not all that significant.

Table 4.4: Internal audit processes and activities

Item	Responses (%)					
	Poor	Credit	Good	Very Good	Excellent	Score
Preparation of audit report	-	-	4	13	15	139
Preparation of annual audit plan indicating auditable areas, resources required, and the duration for each of the auditing activities and other relevant documentations	-	-	6	14	12	134
Perform follow-up audits on all audit findings after the issuance of audit report.	-	-	8	17	7	127
Review prior audit reports and other relevant documentation.	-	10	3	14	5	110
Develop work papers	12	16	-	4	-	60
Discuss recommendations with auditees	18	13	1	-	-	47
Develop recommendations when appropriate	-	-	16	10	6	118
Disseminate audit outcome to the appropriate individuals	-	9	9	14	-	101

Source: Field Survey, 2013

As to whether internal audit functions are seen as important to the company, participants presented several views, the common ones among the views are:

1. Practices such as errors, misstatements, mistakes and lapses which are threat to the survival of the company and smooth operations are identified for redress.

2. The internal audit leads to more effective risk assessment and management. Periodic checks and internal controls of errors, omissions among others are avoided.
3. Effective communication between audit committee and management on audit outcomes helps in minimising risks the company is likely to encounter, facilitating risk management process.

4.5 Compliance with internal audit control systems

In internal auditing, two models have been identified for operations and ensuring compliance. Diamond (2002) identifies two models to be centralised and decentralised approaches hither to refer to as 'third party ex-ante approach'. In centralised approach, the operations of the various sections and departments are controlled from one source. The source intervenes in ex-ante control placing its staff in sections, departments or branches to perform certain control function. In the decentralised approach, each branch, department or section takes full responsibility for spending its own budget. This means that the internal auditing focuses on the overall system of the organisation.

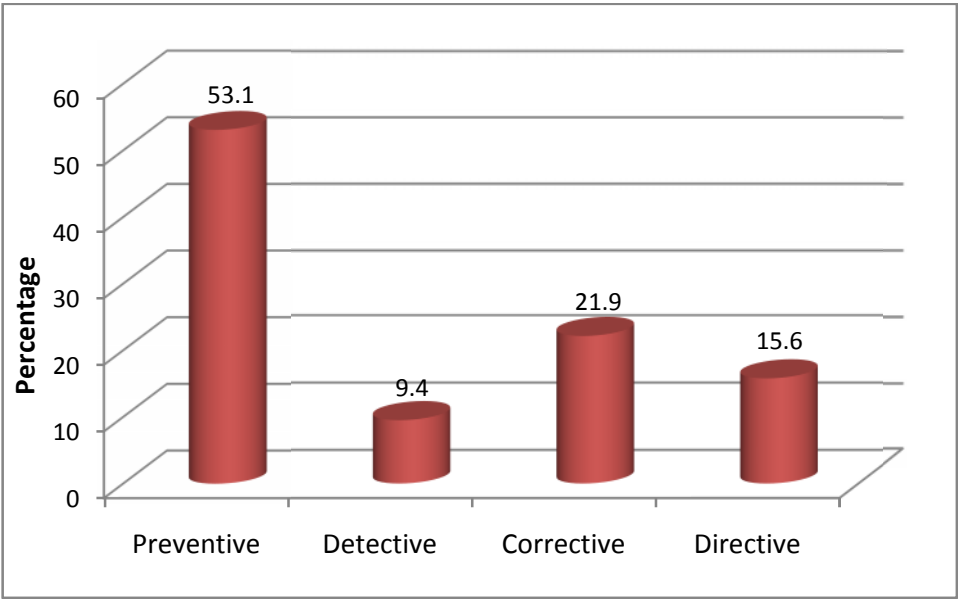
At ECG, interview findings revealed that internal auditing is more centralised. Internal auditing activities are mainly carried out at the head office. But to maintain appropriate checks and safeguards on the way budget are spent, representatives usually placed in the account and controls are charged to perform such task. The overall systems of the company, controls, rules, procedures and regulations set up to ensure the most economic, efficient and effective use of resources is the oversight responsibility of chief internal auditor. To ensure compliance to proper allocation of company's scarce financial resource, there were laid down standards and procedures that managers and supervisors are require to observe and follow at work place.

One of the controls, identified from the interviews was procurement law. Staff members are required by law to make affordable but quality purchases. To ensure this, at least three proforma invoices on the same item are collected for cross examination. The 'cheap but quality' one is then approved to be purchased for the company. Again, items bought are required to be supported with invoice and receipts and this must come from a registered firm or enterprise and not from non-existed firm. So that in case of a problem, the source can be traced with ease to sort for clarification and confirmation. Unfortunately, the interview established that, the practices they have been observing is that invoices presented for consideration usually have one coming from registered firm while the rest are from non existing firm. So virtually end up buying from one source breeding price hype. To avoid such practices, the company has instituted a policy that has registered firms and enterprises the company transact business with and only accept invoices from them. Unless the item is small and the cost is not beyond 100 Ghana Cedis, there can be local purchases, else the section, department or branch will have to make a request at the regional office or head office. This measure is consistent with the assertion that internal auditing function has slowly evolved from problem identification to proactive management (Richards, 2001; Nagy and Cenker, 2002). Unfortunately, this measure though prevent misappropriation, an interviewee indicated that it delays purchasing because of the bureaucracy, thereby affecting operations, especially when the item is urgently needed. As part of control measures, the company prefers VAT invoice on purchases; the VAT invoice authenticates purchases and makes it difficult for manipulation.

Notwithstanding, participants perception about the control systems of ECG was measured. From the results participants described audit controls as preventive 53.1%, corrective 21.9%, directive 15.6% and the least being detective 9.4%. The results therefore suggest that the control measures are meant to prevent than to detect risks and threats, confirming the

assertion made by Nagy and Cenker (2002). The controls provide guidelines for spending in the company, so that practices are the same at all time regardless of the situation. Figure 4.2 illustrates the responses on the nature of audit controls at ECG.

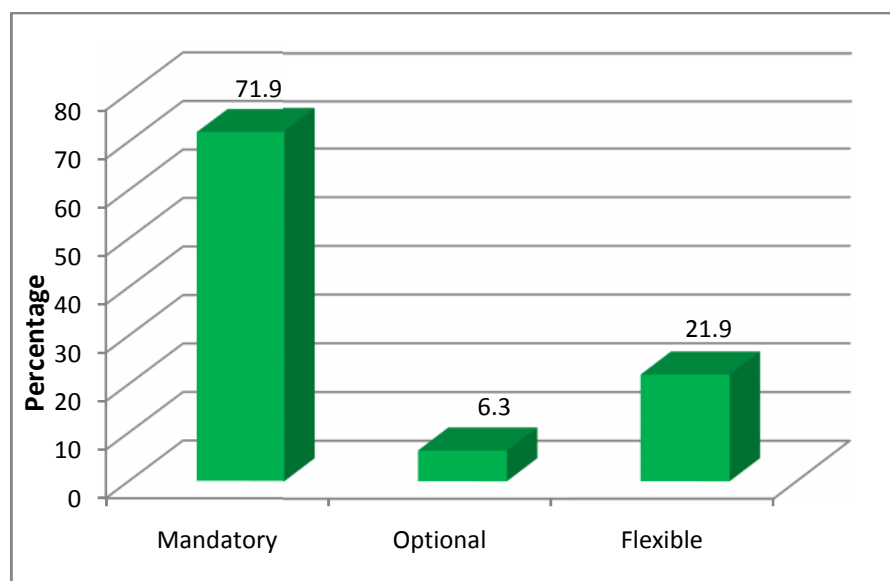
Figure 4.2: Participants description of the audit controls at ECG



Source: Field Survey, 2013

Participants were asked to indicate the level of compliance to the audit controls in the company. The responses gave varied scores for the items: mandatory 71.9%, optional 6.3% and flexible 21.9%, indicating that most of the controls required strict adherence. From the result, there were controls that were flexible and allow for discretionary powers of the managers. This enables the managers to consider alternative to facilitate operations (See Figure 4.3 for details). The interview results confirm this result; interviewees said that the company is much concerned about practices and spending which are very risky and would have adverse effect on the company, and avoid them. Spending which are not all that risky and have insignificant effect on the finance of the company is made flexible to be decided by the managers.

Figure 4.2: Participants assessment on level of compliance to audit controls at ECG



Source: Field Survey, 2013

4.6 Challenges to Internal Auditing Process at ECG

In an attempt to ensure that company's procedures, controls and systems are effective and observed by staff, internal auditing encounter several challenges. One of the key challenges to internal auditing at the branch or department of the company is negative perception of auditees with the highest score of 39.4%. This is as a result of lack of understanding of the role of internal audit function in the organisation. Many of the workers do not appreciate the value and importance of the internal audit department in the company, because of the gains they are denied off. The second ranked item (26.3%) on Table 4.3 is failure on the part of auditees/management to implement audit findings and recommendations. This implies that errors, lapses, misstatements and anomalies continue to persist. In spite of this, the Table establishes that internal audit get the needed support from management. What really occurs is

that internal audit function is treated as one of the routine formality; therefore no credence is attached to the report and the outcomes.

Table 4.3: Responses on the challenges to internal audit at ECG

Item	No. of occurrence	Ranking	Percentage
Lack of independence	15	4 th	9.4
Action on audit findings and recommendations not taken by auditee/management	42	2 nd	26.3
Negative perception from auditee	63	1 st	39.4
Limited/lack of resources	32	3 rd	20
Internal audit function does not have full support	8	5 th	5
Total	32 x 5 = 160		100.0

Source: Field Survey, 2013

Again, the study identified certain factors as determinant of effective internal auditing. From the responses, simple ranking was done based on number of occurrences as shown in Table 4.4. From the table a key determinant to effective internal auditing at ECG was attributed to adequacy of resources 31.9%, followed by support of top management 28.8% and quality of internal audit 20.6%. Interaction with audit committee was seen to contribute low to the effectiveness of internal audit.

Table 4.4: Responses on the determinant of effective internal audit

Item	No. of occurrence	Ranking	Percentage
Quality of internal audit	33	3 rd	20.6
Support of top management	46	2 nd	28.8
Adequate resources	51	1 st	31.9
Cooperation from auditor	16	4 th	10.0
Interaction with audit committee	14	5 th	8.8
Total	32 x 5 = 160		100.0

Source: Field Survey, 2013

CHAPTER 5

SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 Introduction

This chapter presents summary of key findings from the field survey and draw conclusions from the findings. Recommendations are made to help enhance internal audit practices to ensure effective controls in the company

5.2 Summary

The summary is presented according to the findings and the objectives of the study. The summary touch on key findings.

5.2.1 Internal audit processes and controls

Internal audit functions are seen as an integral part of the management of Electricity Company of Ghana. Findings admit that internal audit functions are important for the following reasons.

- I. It addresses practices such as errors, misstatements, mistakes and lapses which are threat to the company's operations.
- II. Checks and balances lead to more effective risk assessment and management.
- III. Internal audit outcomes help minimise risks the company is likely to encounter.

The research findings identified several internal audit functions perform at Electricity Company of Ghana, and each of the functions has particular objective to fulfil. Among the functions in broad terms include operational audit, compliance audit, financial audit and risk assessment. The following functions dominate the internal audit functions at ECG:

Preparation of annual audit report.

Preparation of annual audit plan detailing the auditable areas, resources required for auditing and duration for each of the audit activity and relevant documents.

Follow-up audits on all audit findings after the issuance of audit report.

According to the survey findings, internal audit functions that are not frequently practiced and for that matter had low scores were ‘development of work papers from the audit report’ and ‘discussion of recommendations with auditees’. The internal audit function is performed at branch, regional and head office. At the branch and regional internal audit function is performed by staff in the account section while at the head office, there is an audit department which performs all the internal audit functions and headed by chief internal auditor.

5.2.2 Compliance with internal audit control systems

At ECG, internal audit functions is more centralised; majority of the function is carried out at the head office. The overall systems of the company, controls, rules, procedures and regulations set up to ensure the most economic, efficient and effective use of resources is the oversight responsibility of chief internal auditor. From the survey, procurement law is one of the controls strictly comply with managers and supervisors.

Findings established that internal audit controls are high for detecting and not for prevention faults. However, there are some elements of correction, direction and detection of risks and threats in the company’s operations. The internal audit function places greater emphasis on adherence to the controls, but gives room for alternatives and options to be exercised by the

managers when the need arises. Usually, the options are preferred on situations which are not so detrimental and risky to the organisation.

5.3 Conclusion

Based on the internal audit functions commonly practised in the company, it can be concluded that attention is given to them because they were the functions critical for effective allocation of company's resources and spending. The audit report becomes an action plan and policy document to safeguard company's scarce financial resource. Follow-up audit after issuance of audit report for instance correct all anomalies in spending.

To make internal audit effective, there are controls set to regulate the company's spending at the branches, regions and the head office. These controls are put in place to prevent misappropriations, lapses, misstatement and anomalies in the allocation of resources, particularly funds. The controls are required to be followed by all, unless a particular dealing is stated other wise. It is at this point that the controls pave way for alternatives and options.

Internal audit functions face a lot of challenges in the company. Auditees have misconception about them, perceive the functions as rigid, obstruction and interfere with smooth operations in the company. Hence, internal audit is perceived as a formality and not a way of ensuring effective and efficient utilisation of company's resources. As a result, audit findings and recommendations are not treated with utmost effort.

5.4 Recommendations

To ensure effective internal audit the following are recommendations that the researchers propose:

- I. Managers and supervisors should be educated on the need and benefit of internal audit to the company. This will erase misconception and ensure commitment, cooperation

and adherence to internal audit controls, thereby making internal audit activities simple and easy.

- II. Management needs to give attention to all the internal audit functions and not some so that no avenue is created to encourage misappropriation. By this, audit findings and recommendation will be given the needed attention and implemented to check any future occurrences.
- III. To ensure effective internal audit, challenges such as enumerated must be look at and eliminated. For instance, resources should be made readily available to aid internal audit in the company. Again, actions should be taken on audit findings and recommendations. This will encourage auditors and make them feel that they are also important in the company.
- IV. Management should not treat audit report as a mere document; findings could either make or unmake the company, especially when it is risky. The recommendations could provide valuable information to address anomalies in spending.

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QUESTIONNAIRE

This questionnaire solicits information on internal audit practices and its challenges at ECG for academic purposes. We will be grateful if you will spare us part of your tight schedule and fill the questions as frank as possible. You are assured of confidentiality of the information provided therein.

Please indicate the extent of agreement to the following statement on internal audit at ECG

1. How long have you work with ECG
2. What is your status in the company
3. What is your highest educational qualification
4. Do you have any professional qualification? Please specify

5. There is little support and minimal cooperation coming from others in the organization for the Internal Audit Department to be able to conduct its activities successfully.

Poor	<input type="checkbox"/>
Credit	<input type="checkbox"/>
Good	<input type="checkbox"/>
Very good	<input type="checkbox"/>
Excellent	<input type="checkbox"/>

6. There is a lack of understanding of the role of internal audit as an independent appraisal function within the organization.

Poor	<input type="checkbox"/>
Credit	<input type="checkbox"/>
Good	<input type="checkbox"/>
Very good	<input type="checkbox"/>
Excellent	<input type="checkbox"/>

7. There is a lack of appreciation of the value and importance of the Internal Audit Department in the organization.

Poor	<input type="checkbox"/>
Credit	<input type="checkbox"/>
Good	<input type="checkbox"/>
Very good	<input type="checkbox"/>
Excellent	<input type="checkbox"/>

8. The recommendations by the Internal Audit Department are usually implemented by the relevant parties in the organization.

Poor ☐

Credit ☐

Good ☐

Very good ☐

Excellent ☐

9. The Internal Audit Department receives adequate feedback from management on its audit findings and recommendations.

Poor ☐

Credit ☐

Good ☐

Very good ☐

Excellent ☐

10. Auditors face no obstruction to audit regardless of offices, records, property or personnel

Poor ☐

Credit ☐

Good ☐

Very good ☐

Excellent ☐

11. Internal auditors have regular access to senior personnel.

Poor ☐

Credit ☐

Good ☐

Very good ☐

Excellent ☐

12. Auditors are free to allocate resources, set frequencies, select subjects, determine scope of work and apply the techniques required to accomplish audit objectives.

Poor ☐

Credit ☐

Good ☐

Very good ☐

Excellent ☐

13. Auditors are free to obtain the necessary assistance of personnel in areas of the organisation where audits are performed.

Poor ☐

Credit ☐

Good ☐

Very good ☐

Excellent ☐

14. Auditors are free to produce audit reports where the contents may not be to the taste of individuals or groups working or associated with the organisation.

Poor ☐

Credit ☐

Good ☐

Very good ☐

Excellent ☐

Using a score of 1 – 5, how much will you score the following activities undertaken in auditing.

1 2 3 4 5

15. Preparation of audit report. ☐ ☐ ☐ ☐ ☐

16. Preparation of annual audit plan detailing the auditable areas,
the resources required and duration of each audit activity and
other relevant documentations. ☐ ☐ ☐ ☐ ☐

17. Perform follow-up audits on all audit findings sometime after
the issuance of audit report. ☐ ☐ ☐ ☐ ☐

18. Review prior audit reports and other relevant documentations ☐ ☐ ☐ ☐ ☐

19. Develop work papers ☐ ☐ ☐ ☐ ☐

20. Discuss recommendations with auditees ☐ ☐ ☐ ☐ ☐
21. Develop recommendation when appropriate. ☐ ☐ ☐ ☐ ☐
22. Disseminate audit outcome to the appropriate individuals ☐ ☐ ☐ ☐ ☐

Please provide answer to the following questions in the spaces provided on each question.

23. How do internal audit plans identify organizational risks?

24. What internal audit characteristics lead to more effective risk assessment?

25. How does internal audit help in mitigating organizational risk?

26. How is the focus of internal auditors different from that of external auditors?

27. Describe workers perception about the internal auditing
