

**PROMOTING GOOD GOVERNANCE IN PUBLIC SECTOR  
(THE ROLE OF THE INTERNAL AUDITOR IN EFFECTIVE CORPORATE  
GOVERNANCE)**

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## **ABSTRACT**

The aim of this study was to find out the role of the internal auditors in effective corporate governance sector due to the fact that there has been an evolution in internal auditing. The objective of the study was to examine the factors responsible for the low support for the internal audit activity by managers of public institutions; identify specific actions required to secure support of managers for the internal audit activity; establish the relationship between quality of service and support for the internal audit. Literature was reviewed in connection to the topic.

Data was collected using interviews and administration of questionnaires in ten (10) public companies from where 50 employees were given questionnaires. A sample of 50 respondents was selected randomly from a population of 185 public officials. Data was analyzed using statistical package for social scientist (SPSS).

From the study, the researcher found out that, public sector managers do not support internal audit due to the fact that, public sector managers are not aware of the exact role of the internal auditors due to the evolution of the internal audit activities. Again, public sector managers do not see the relevance of the internal audit activities in the public sector organizations. The researcher also found out from the respondents that, if the internal audit unit in public organizations will employ qualified professionals, motivated and are well resourced so that internal auditors help managers reach their objectives will get the support of public sector managers. Lastly, the study revealed that, one's perception of the Internal Auditor is influenced by how they perceive his role in the company. The respondents said, their attitude to the internal audit will change if they help public managers in the public sector organizations achieve their objectives which are examine the whole organization to detect and deter any misappropriation of public funds. The conclusion

drawn was that the internal auditors find it difficult to perform their specific responsibilities of preventing, and detecting fraud, errors, irregularities, misappropriation and misuse of public resources. This is because they do not have the needed logistics to enable them carry out their statutory duties. The staff is not well motivated in terms of remuneration, offices and regional accommodation. This affects their morale and does not motivate them to give off their best.

The researcher therefore recommends that, public organizations are to be provided with qualified professionals, motivate them by way of higher incentives, training and so forth and government should provide them with necessary resources such as offices and so forth.

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## **DEDICATION**

This work is solely dedicated to our supervisor, Mr. Stephen B.Alewaba.

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## **CHAPTER ONE**

### **1.1 BACKGROUND OF THE STUDY**

The Government of Ghana has taken a proactive step in establishing the Internal Audit Agency (The Agency) by an Act of Parliament in 2003. The IAA is mandated to co-ordinate, facilitate and provide quality assurance for internal audit activities within the public sector institutions (the IAA Act 2003, Act 658). The Agency has formulated three strategies which it is currently pursuing to improve the image of the Internal Audit function in the public sector.

These are as follows:

- Professional Practice Framework which aims at developing key documents and templates for use by the Internal Audit function such the Internal Audit Regulations, Internal Auditing Standards, Audit Programs, Internal Audit Charter and Annual Audit Planning templates.
- Human Resource Development which seeks to facilitate the recruitment, training and development of internal auditors to be proficient in applying internal audit standards, procedures and techniques in performing engagements.
- Quality Assurance and Improvement which addresses the issue of continues improvement in the performance of the internal audit activity.

Well performing internal audit function is considered as one of the strongest means in order to monitor and promote good governance system in company. Good governance is considered as

a tool that is used in order to achieve strategy of a company (Belay 2007). Thus, a growing number of earnings restatements by openly traded companies joined with allegations of financial statement fraud and lack of accountable corporate governance of high-profile companies such as Enron, Global Crossing, WorldCom and Adelphia has helped to grinded the ever increasing attention on corporate governance in wide-ranging and the audit committee in particular. As a result, the function of the committee had changed over years (Rezaee&Olibe 2003). The ethical standing of any profession is critical to its reception in the society (Mintz 1995). According to Armstrong (1993) ethical conduct focus at the center of each cause for survival of work. This is the cause for the auditing profession where in ethical failings can have far-reaching economic influences and result to the extensive financial agony. Ethical values are fundamental for the internal auditors because of two important reasons. First, internal auditors are regularly faced with various ethical problems which can confront their standards (Goodwin & Yeo 2001). They may face cases which involve and oblige them to speak out (Barrier 2003) and this is not always simple, for the most part when pressure is being exercised by senior management to go with the flow and not to make waves (Thompson 2003). Second, with the existing emphasis on corporate governance, it is becoming more and more familiar that internal auditors can play a key function in increasing business ethics and corporate honesty (Moelle 2004). As one of the important keystones and foundations of corporate governance, internal auditors are anticipated to work with audit committees, boards and senior management to assist put the right tone at the top and helps to guarantee that ethical behavior flows down all the way through the ranks to lower level employees (Bailey &Gramling 2003).

## **1.2 STATEMENT OF THE PROBLEM**

Public sector managers do not support Internal Audit. The Internal Audit function in the Ghanaian public sector faces a perception and, to some extent, a credibility problem as a value adding unit of the organization. The Internal Audit Agency (2006) believes that the importance of Internal Audit is "shrouded in obscurity". This unfortunate background continues to play down the importance of Internal Audit as a key function that can strengthen the oversight responsibility of the governing body. This reflects in the management attitude towards the Internal Auditor. Most often than not the budget of the Internal Audit Unit, if any exist at all, is woefully inadequate to enable them meet the resource requirements of their annual audit plans. Internal Auditors are seen more as fault finders rather than solution providers and partners in the Governments strive for organizational excellence.

## **1.3 RESEARCH OBJECTIVES**

At the end of this study, the following objectives would have been achieved to answer the above question:

1. Examine the factors responsible for the low support for the internal audit activity by managers of public institutions.
2. Identify specific actions required to secure support of managers for the internal audit activity
3. Establish the relationship between quality of service and support for the internal audit
4. To make the necessary recommendations.

## **1.4 RESEARCH QUESTIONS**

1. What account for the low support for Internal Audit by public sector managers?
2. What actions are necessary to get the support of management of internal auditing in the public sector?
3. Is there a link between the quality of service the Internal Auditor provides for his Organization and the attitude of managers towards the Internal Audit function?

## **1.5 SIGNIFICANCE OF THE STUDY**

The significance of the study will be to improve public understanding of the role of the Internal Auditor in the achievement of organizational objectives, find out why public sector managers fail to support the internal audit function and what can be done to curb it, and also improve literature on public sector Internal Auditing in Ghana. Moreover, this research will provide recommendations that will help get the support of public sector managers for internal audit.

## **1.6 SCOPE OF THE STUDY**

The study involves an in-depth into the role of internal auditing in corporate governance in the public sector. The study also cover the duties expected to the internal auditor in the detection and prevention of fraud, error and irregularities in financial statements and misappropriation of state resources in public enterprises and the challenges that the services faces in Ashanti region.

The audit service in Ashanti was chosen because of its proximity to researchers and the researcher's interest in good governance in the public sector

Besides, it was realized that it would be time consuming and expensive to cover the whole population of audit service. The information gathered can be used to represent the audit service of Ghana. To this end the audit service in Ashanti region was chosen.

## **1.7 LIMITATIONS**

Certain weakness of the study could influence the result and its generalization. The researcher had little or no control over such weakness. Some of the potential weakness includes;

Some officials of the audit service may feel reluctant to release the needed information for the study. The administration procedure and process of obtaining information may prolong the data gathering and analysis. This delay may affect the researchers work. The researcher cannot cover all the ten regions of Ghana. The research will therefore be restricted to the Ashanti region of Ghana.

## **1.8 ORGANIZATION OF THE STUDY**

The study is organized in five chapters. Chapter one covers the general background of the study. this include the general introduction, definition statement of the problem, objective of the study, research questions, relevance of the study, scope of the study and the limitation of the study

The chapter two reviews related literature on the topic. The methodology used for the study is captured in chapter three.

The chapter four covers detailed presentation of the findings while the final chapter, thus chapter five presents the summary of findings, conclusion and recommendation of the study



## **CHAPTER TWO**

### **LITERATURE REVIEW**

All over the world there is a realization that the Internal Audit activity has the potential to provide hitherto unparalleled services to management in the conduct of their duties. This potential has been turned into a challenge and embodied in the new definition of Internal Auditing from the Institute of Internal Auditors (IIA). Internal auditing is an important and pragmatic process which can be of significant value to all commercial enterprises and in the case of effective corporate governance. The business environment has experienced rapid and revolutionary change with far reaching consequences for organizations worldwide. Management responses to fierce global competition have included improved quality and risk management initiatives, re-engineered structures and processes, and greater accountability — all needing more timely, reliable, and relevant information for decision-making. Organizations are also scrambling to put in place more effective governance structures and processes. In such a climate, it is no surprise that the internal audit function is viewed as the most qualified group of professionals to help with such experimentation with improved governance as well as support key governance processes: for monitoring the controls over, and for evaluating the operational effectiveness of, these management strategies and initiatives. However, to take advantage of this tremendous surge in the demand for their services, not only do internal auditors need a considerably enhanced repertoire of skills, attributes, and competencies but they also need to commensurately raise their organizational status and profile and align themselves appropriately within their respective organizations. Private businesses and all levels of government conduct internal audits of accounting records and procedures. Internal

audits are conducted by a company's own personnel to uncover bookkeeping errors and also to check the honesty of employees. In large companies, internal auditing is an ongoing procedure. A company that trades stock on a registered stock exchange or is preparing to issue new shares of stock must submit to an external audit. These companies are known as publicly traded companies. An external audit is used to give the public a true statement of a company's financial position. It is made at least once a year by public accountants who are not regular employees of the company. The auditors make sure that the company has followed proper accounting procedures in its financial records and statements. They compare the current financial statements with those of the previous year to determine whether the statements are calculated consistently. If they are not, they present a distorted picture of the company's financial position. The auditors also inspect real estate, buildings, and other assets to see if their value is overstated. Debts and other liabilities are checked to see if they have been understated (1999). The research seeks to explain the role and significance of internal audit in today's business environment and effective corporate governance.

## **2.1 HISTORY OF AUDITING**

The demand for both external and internal auditing is 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 organizations. The roots of auditing, in general, are intuitively described by accounting historian Richard Brown (1905, quoted in Mautz&Sharaf, 1961) as follows:

“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 entrusted to some extent with the property of another, the advisability of some kind of check upon the fidelity of the former would become apparent.”

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. Similar developments occurred with respect to the Zhao dynasty in China (1122-256 B.C.). The need for and indications of audits can be traced back to public finance systems in Babylonia, Greece, the Roman Empire, the City States of Italy, etc., all of which developed a detailed system of checks and counterchecks. Specifically, these governments were worried about incompetent officials prone to making bookkeeping errors and inaccuracies as well as corrupt officials who were motivated to perpetrate fraud whenever the opportunity arose. Even the Bible (referring to the period between 1800 B.C. and A.D. 95) explains the basic rationale for instituting controls rather straightforwardly: “...if employees have an opportunity to steal they may take advantage of it.” The Bible also contains examples of internal controls such as the dangers of dual custody of assets, the need for competent and honest employees, restricted access, and segregation of duties (O'Reilly et al., 1998). Historically then, the emergence of double-entry bookkeeping in circa 1494 A.D. can be directly traced to the critical need for exercising stewardship and control. Throughout European history, for instance, fraud cases — such as the South Sea bubble of the 18th century, and the tulip scandal — provided the justification for exercising more control over managers.

## **2.2 INTERNAL AND EXTERNAL AUDITING**

It is important to understand and recognized the differences and commonalities between internal and external audit. Internal audit shares a common history with external audit and has grown out of the increasing focus on the need to have effective controls within an organization.

The internal and external auditor should work closely together, in particular to co-ordinate activity and maximize effectiveness. However, there are number of fundamental differences in their objectives, scope and responsibilities.

### **2.2.1 The Main Differences**

There are, however, many key differences between internal and external audit and these are matters of basic principle that should be fully recognized:

- The external auditor is an external contractor and not an employee of the organization as is the internal auditor. Note: however, that there is an increasing number of contracted-out internal audit functions where the internal audit service is provided by an external body.
- The external auditor seeks to provide an opinion on whether the accounts show a true and fair view, whereas internal audit forms an opinion on the adequacy and effectiveness of systems of risk management and internal control, many of which fall outside the main accounting systems.

### **2.2.2 The Main Similarities**

The main similarities between internal and external audit are as follows:

- Both the external and internal auditor carry out testing routines and this may involve examining and analyzing many transactions.
- Both the internal auditor and the external auditor will be worried if procedures were very poor and/or there was a basic ignorance of the importance of adhering to them.
- Both tend to be deeply involved in information systems since this is a major element of managerial control as well as being fundamental to the financial reporting process.
- Both are based in a professional discipline and operate to professional standards.
- Both seek active co-operation between the two functions.
- Both are intimately tied up with the organization's systems of internal control.
- Both are concerned with the occurrence and effect of errors and misstatement that affect the final accounts.
- Both produce formal audit reports on their activities.

## **2.3 CONTEMPORARY PRACTICE OF INTERNAL AUDITING**

As the internal auditing profession became more firmly established, it responded quickly to new demands from significant regulatory and legislative mandates, as well as high-profile (inter)national reports: the passage of the Foreign Corrupt Practices Act (1977), particularly its emphasis on internal controls; the issuance of the Report of the National Commission on Fraudulent Financial Reporting (Tread way Commission Report, 1987); the Report of the Committee of Sponsoring Organizations (COSO) of the Tread way Commission (COSO,

1992); as well as the subsequent internal control frameworks presented by the Cadbury Committee

Report (Cadbury Report, UK); the Criteria of Control Committee (Coco Report, Canada); and the King Committee (King Report, South Africa); the amendments to the U.S. Federal Sentencing Guidelines (1995) ;recent changes in the New York Stock Exchange rules regarding the structure and composition of the Board of Directors of listed companies as well as the requirement for all publicly listed companies to have an internal audit function; The newly passed Sarbanes-Oxley Act of 2002; and ongoing calls for better organizational governance.

## **2.4 DEFINITION OF INTERNAL AUDITING**

According to the Institute of Internal Auditors, “internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization’s operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes” (March 2007). 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 organization.

Therefore the scope of internal audit is no longer restricted to the processes and systems in the accounts and finance function but rather encompasses the examination and evaluation of the adequacy and effectiveness of the organization's governance, risk management process,

system of internal control structure, and the quality of performance in carrying out assigned responsibilities to achieve the organization's stated goals and objectives. It includes;

- Reviewing the reliability and integrity of financial and operating information and the means used to identify measure, classify, and report such information.
- Reviewing the systems established to ensure compliance with those policies, plans, procedures, laws, and regulations which could have a significant impact on operations and reports and whether the organization is in compliance.
- Reviewing the means of safeguarding assets and, as appropriate, verifying the existence of such assets.
- Reviewing and appraising the economy and efficiency with which resources are employed.
- Reviewing operations or programs to ascertain whether results are consistent with established objectives and goals and whether the operations or programs are being carried out as planned.
- Reviewing specific operations at the request of the Audit Committee or management, as appropriate.
- Monitoring and evaluating the effectiveness of the organization's risk management system.
- Reviewing the quality of performance of external auditors and the degree of coordination with internal audit.
- Review the internal control statement by senior management and the related opinion by the attest auditor for audit planning.

#### **2.4.1 An Assessment of the Newly Defined Internal Audit Function**

The study conducted by Nagy & Cenker (2002) focused on the assessing the newly defined internal audit function. In June 1999, the IIA formally adopted a new description of the internal auditing function. As a result, the new definition shifts the focus of the internal audit function from one of declaration to that of value added and attempts to move the profession towards a standard-driven approach with a delicate and keen individuality. The paper enables to focus on different issues that pertains if the new definition had essentially reflects the day-to-day activities of internal audit departments and if the functions of internal auditors had altered. Based on the discussions and constant with the new internal audit definition, the orientation of internal audit has changed towards consulting and value added services and away from the customary assurance services. Such a change elevates several interesting issues which include: has the external auditor rewarded for the decrease in assurance services formerly offered by internal audit, and who decides the range of activities for the recently defined internal audit function? The result of the study showed that the responses differs drastically among companies from a traditional assurance orientation to that of a value-added and consulting orientation, with most of the companies positioned somewhere in the middle (Nagy & Cenker 2002).

#### **2.4.2 Risk Management: The Reinvention of Internal Control and the Changing Role of Internal Audit**

The study of Spira & Page (2003) explores the changes due to the fundamental redefinition of Turnbull guidelines about the nature of internal control as an attributes of corporate governance in the UK. The paper focused on sociological standpoints regarding risks as well



as other conceptualization in order to outline the discussion regarding the internal control and risk management within the UK corporate governance. Corporate governance replicates the power relations and political resolutions between shareholders, creditors, management and labor as they are personified in a given institutional history (Jackson 2000). For this reason, the idea of risk had become essential to corporate governance and become connected to the idea of internal control. In the process, the significance had changed. Internal control was under assessment, partially because of well-publicized corporate failures and partially as a result of moves towards professionalization of the internal audit function. Express changes in IT and decision-making practices in many organizations were motivating moves away from strict, recognized control to situations where liability for control was being pushed down the organization hierarchy and where mistake by management could not be attained through conventional, fulfillment based internal audit. The study had been able to show an observation that within the corporate governance policy, risk management has become closely aligned with internal control which proposes the amount to which risks are administered has now been captured as a form of accountability, rather than its focus – considered as an index against which a measurement of performance is being calculated. Thus, the redefinition enables to offer a new vision of risk management as part of the accountability process, which involves an alteration which shadows the difference between responses to risk, through risk management systems and accountability of risk (Spira& Page 2003).

## **2.5 THE GHANA AUDIT SERVICE**

In 1910, the Ghana Audit Service (GAS) was created in London as a colonial audit department. Originally called the Gold Coast Audit Department, it later became known as the Auditor-General's Department. The 1969 constitution of Ghana extended financial and administrative autonomy to the agency, and the 1972 Audit Service Decree established it as the GAS and strengthened its independence by establishing a seven-member Audit Service Board as its governing body. The board consists of the chairman, four representatives appointed by the president acting in consultation with the council of state, the auditor-general, and the head of the civil service. The Audit Service Act of 2000 (Act 584), which derives most of its provisions from the 1992 constitution, further enhanced the mandate of the GAS.

### **2.5.1 MISSION**

The GAS exists to promote good governance – transparency, accountability, and probity-in the public financial management system of Ghana by auditing the management of public resources in accordance with recognized international auditing standards and reporting to Parliament. Its vision is to become one of the leading supreme audit institutions in the world by 2010, delivering professional, excellent, and cost-effective auditing services.

### **2.5.2 MANDATE**

By law, the GAS is required to audit all public accounts of Ghana and report on them to Parliament within 6 months after the end of each financial year. Its mandate includes accounts of the courts, central and local government administrations, public universities and other schools, and all public corporations or other bodies or organizations established by an act of

parliament.

The auditor-general also has authority to conduct compliance, financial, and performance audits on his own initiative or at the request of the president or parliament.

### **2.5.3 LEGAL AUTHORITY AND INDEPENDENCE**

The auditor-general is appointed by the president in consultation with the council of state.

Under the 1992 constitution and Act 584, the auditor-general is not subject to the direction of control of any other person or authority and has the power to disallow any item of expenditure that is contrary to law. In addition, the auditor-general retains the power to impose surcharges for disallowed expenditures and to have access to all books, record, returns, or other documents relating to active accounts. Internal auditors of any public institution or body must submit copies of all reports issued as a result of internal audit work to the auditor-general.

### **2.6 THE ROLE OF INTERNAL AUDITING**

- Examination and evaluation of financial and operating information within the organization. In certain organizations this can form a type a continuous auditing and may involve sophisticated information systems that capture monitoring of risks and evidencing of controls.
- Review of the economy, efficiency and effectiveness of operations.
- Review of compliances with external laws and regulations and internal policies and procedures.
- Review and advice on the development of key organizational systems and on the implementation of major changes.

## **2.7 ADVANTAGES AND DISADVANTAGES OF INTERNAL AUDITING**

### **2.7.1 Advantages of Internal Audits**

- The biggest advantage of internal audit is that it will lead to discovery of errors and therefore when external audit is done those errors which were discovered during internal audit would have been rectified by then.
- Since internal audit is done by the employees of the company there is no additional cost involved which again is a big advantage for a company which is doing internal audit.
- As internal audit is a constant procedure where records are checked regularly it ensures that accounting staff of a company keep the records up to date.

### **2.7.2 Disadvantages of Internal Audits**

- Internal audits report is not accepted by either the shareholders or tax authorities, it is the external auditor report which is required to be submitted to these parties.
- Since internal audit is done by the employees of the company chances are that it may be biased and therefore company cannot depend on such reports.

It is clear that the role of internal auditing is significantly changing as a response to company and organizational needs, as well as increasing focus on the organizational risk. However, the role of internal audit can depend on the culture and approach of the organization. Whilst the trend is towards greater consultancy and risk-based approach, certain organizations are still looking for a more traditional, inspection-based approach that they feel more comfortable with.

The internal audit is not immune to these trends and faces the same pressure as all other departments. There are four major areas of importance for internal audit that are mostly address.

- Corporate governance
- Risk management
- Organizational controls or internal control systems
- Corporate objectives.

## **2.8 THE ROLE OF INTERNAL AUDITOR IN THE DETECTION AND PREVENTION OF FRAUD, ERRORS AND IRREGULARITIES**

There is a difference in perception between the public and public and the auditing profession in relation to an auditor's duty regarding errors and fraud. Even though the detection and prevention of fraud and other irregularities is not a primary responsibility of the auditor, one of the considerable advantages arising from an audit is the detection and prevention of fraud and errors.

The word error is used to refer to an unintentional mistake in accounts and accounting records, of whether mathematical or clerical nature, or (whether) in the application of accounting principles, or due to oversight or misinterpretation of relevant facts.

The term fraud and irregularities is used to refer to intentional distortions of accounts and accounting records for whatever purpose and to misappropriation of assets whether or not accompanied by distortion of accounts and accounting records. Fraud is one type of

irregularities. In general fraud is used to refer to irregularities involving the use of criminal deception to obtain an unjust or illegal advantage. For example fraud may involve:

- Use of deception to obtain an unjust financial advantage. Example, intentional overstating of stock
- Theft, whether or not accompanied by misstatement of accounting records.
- Intentional misstatement or omission of transaction from an entity's financial statement.

Some common fraud includes embezzlement by staff in the form of cash and trading stock. The opportunity for committing such fraud is so frequent especially where there is virtually no internal check. The methods of committing such frauds are so simple and numerous to the extent that virtually all business concerns are vulnerable to this type of fraud. Fraudulent manipulation of accounts not involving defalcation is another situation that often happens in businesses. This may be done in order to maintain confidence of shareholders or the public, or it may be done by a manager for the purpose of increasing the profits of the business thus showing that he has been successful in his management. This can also be done by directors for the purpose of enabling them to pay dividends which would otherwise not have been possible. It must be noted that this type of fraud is very often skillfully concealed and in many cases committed by persons holding positions of the highest trust, and having the entire confidence of directors and shareholders.

## **2.9 CORPORATE GOVERNANCE**

The history of corporate governance arrangements, understood as the constitutive processes shaping the relationship between ownership and management of enterprises, is a relatively new field of inquiry for business historians. Indeed, most of the recent historiography has been written by non-historians (especially economists and legal scholars) concerned with tracing the roots of contemporary corporate governance regimes.

The term “corporate governance” came into popular use in the 1980's to broadly describe the general principles by which the business and management of companies were directed and controlled. Although its use is now common, and the objectives to be achieved thereby generally understood, there is no universally accepted definition of “corporate governance”. Although the utility of definitions is invariably exaggerated, definitions do have the advantage of providing a general framework for discussion and debate.

Governance is the manner by which a function is conducted, and hence corporate governance is the manner by which corporations are and should be conducted. The term contains many attributes of which trust, transparency and accountability are fundamental aspects. It includes all aspects that are significant to decision making in a company.

A basic definition of corporate governance, which has been widely recognized, was given in a report by the committee under the chairmanship of Sir Adrian Cadbury titled *The Financial Aspects of Corporate Governance* (the Cadbury Report):

“Corporate governance is the system by which companies are directed and controlled. Boards of directors are responsible for the governance of their companies. The shareholders' role in governance is to appoint the directors and the auditors and to satisfy themselves that an appropriate governance structure is in place. The responsibilities of the directors include setting the company's strategic aims, providing the leadership to put them into effect, supervising the management of the business and reporting to shareholders on their stewardship. The Board's actions are subject to laws, regulations and the shareholders in general meeting.”

Other definitions include that by the International Chamber of Commerce in its web based guide to corporate governance for business managers:

“Corporate governance is the relationship between corporate managers, directors and providers of equity, and institutions who save and invest their capital to earn a return. It ensures that the Board of directors is accountable for the pursuit of corporate objectives and that the corporation itself conforms to the law and regulations.”

Taken together, all definitions of corporate governance lead to the basic idea, which refers to the system by which companies are directed and controlled, focusing on the responsibilities of directors and managers for setting strategic aims, establishing financial and other policies and overseeing their implementation, and accounting to shareholders for the performance and activities of the company with the objective of enhancing its business performance and conformance with the laws, rules and practices of corporate governance.



Corporate Governance refers to the way a corporation is governed. It is the technique by which companies are directed and managed. It means carrying the business as per the stakeholders' desires. It is actually conducted by the board of Directors and the concerned committees for the company's stakeholder's benefit. It is all about balancing individual and societal goals, as well as, economic and social goals.

Corporate Governance is the interaction between various participants (shareholders, board of directors, and company's management) in shaping corporation's performance and the way it is proceeding towards. The relationship between the owners and the managers in an organization must be healthy and there should be no conflict between the two. The owners must see that individual's actual performance is according to the standard performance. These dimensions of corporate governance should not be overlooked. Corporate Governance deals with the manner the providers of finance guarantee themselves of getting a fair return on their investment. Corporate Governance clearly distinguishes between the owners and the managers.

The managers are the deciding authority. In modern corporations, the functions/ tasks of owners and managers should be clearly defined, rather, harmonizing.

Corporate Governance deals with determining ways to take effective strategic decisions. It gives ultimate authority and complete responsibility to the Board of Directors. In today's market- oriented economy, the need for corporate governance arises. Also, efficiency as well

as globalization is significant factors urging corporate governance. Corporate Governance is essential to develop added value to the stakeholders.

Corporate Governance ensures transparency which ensures strong and balanced economic development. This also ensures that the interests of all shareholders (majority as well as minority shareholders) are safeguarded. It ensures that all shareholders fully exercise their rights and that the organization fully recognizes their rights.

Corporate Governance has a broad scope. It includes both social and institutional aspects. Corporate Governance encourages a trustworthy, moral, as well as ethical environment.

### **2.9.1 Characteristics of Corporate Governance**

- **Discipline:** Corporate discipline is a commitment by a company's senior management to adhere to behavior that is universally recognized and accepted to be correct and proper. This encompasses a company's awareness of, and commitment to, the underlying principles of good governance, particularly at senior management level. "All involved parties will have a commitment to adhere to procedures, processes, and authority structures established by the organization."
- **Transparency:** Transparency is the ease with which an outsider is able to make meaningful analysis of a company's actions, its economic fundamentals and the non-financial aspects pertinent to that business. This is a measure of how good management is at making necessary information available in a candid, accurate and timely manner – not only the audit data but also general reports and press releases. It

reflects whether or not investors obtain a true picture of what is happening inside the company. “All actions implemented and their decision support will be available for inspection by authorized organization and provider parties.”

- Independence: Independence is the extent to which mechanisms have been put in place to minimize or avoid potential conflicts of interest that may exist, such as dominance by a strong chief executive or large share owner. These mechanisms range from the composition of the board, to appointments to committees of the board, and external parties such as the auditors. The decisions made, and internal processes established, should be objective and not allow for undue influences.

“All processes, decision-making, and mechanisms used will be established so as to minimize or avoid potential conflicts of interest.”

- Accountability: Individuals or groups in a company, who make decisions and take actions on specific issues, need to be accountable for their decisions and actions. Mechanisms must exist and be effective to allow for accountability. These provide investors with the means to query and assess the actions of the board and its committees.

“Identifiable groups within the organization - e.g., governance boards who take actions or make decisions - are authorized and accountable for their actions.”

- Responsibility: With regard to management, responsibility pertains to behavior that allows for corrective action and for penalizing mismanagement. Responsible management would, when necessary, put in place what it would take to set the

company on the right path. While the board is accountable to the company, it must act responsively to and with responsibility towards all stakeholders of the company.

“Each contracted party is required to act responsibly to the organization and its stakeholders.”

- Fairness: The systems that exist within the company must be balanced in taking into account all those that have an interest in the company and its future. The rights of various groups have to be acknowledged and respected. For example, minority share owner interests must receive equal consideration to those of the dominant share owner(s).

“All decisions taken, processes used, and their implementation will not be allowed to create unfair advantage to any one particular party.”

- Social responsibility: A well-managed company will be aware of, and respond to, social issues, placing a high priority on ethical standards. A good corporate citizen is increasingly seen as one that is non-discriminatory, non-exploitative, and responsible with regard to environmental and human rights issues. A company is likely to experience indirect economic benefits such as improved productivity and corporate reputation by taking those factors into consideration.

### **2.9.2 Benefits of Corporate Governance**

Corporate governance refers to the ability of companies to manage them effectively.

Corporate governance is the collective system of leadership used by executives and all major

leaders in the company, including important shareholders. It dictates how decisions are made and who holds the power in the company. A strong corporate governance system will be aware of the 'company's current progress and will have the ability to make many changes in corporate structure as needed. Benefits include the following as discussed below;

- **Enhanced Performance:** Corporate governance helps a company improve overall performance. Without corporate governance, a company tends to be weak and sluggish. Only a group of leaders working together can successfully foresee market changes and prepare the company to meet them ahead of time, while also managing the company in the here and now. It is too much work and too much responsibility for one person, or for only a loose body of leaders.
- **Access to Capital:** The better corporate governance a company has, the more easily it can access outside capital that the business can use to fund its projects. Since corporate governance includes major shareholders, it connects investors with the business itself, and these investors use their resources and contacts to support the company monetarily. Due to these close connections, capital also tends to be less expensive to finance with a strong corporate governance system.
- **Better Standards:** Corporate governance makes many decisions about business operations, but one of the most important decisions involves corporate standards. Standards affect the quality of products and the goals that the business has in technology, customer service, and marketing. The combined efforts of the business leaders allows the company to accurately judge competition and create standards that add value to the business's products or services.

- **Better Talent Utilization:** Without a corporate governance, business leaders tend to flounder. The lack of clear organizational structure at the top of the company makes it difficult for people to move up the ladder or to aim for a particular position. With a strong corporate governance structure, however, people can find positions that utilize their talents more effectively, and the board of directors and top leaders of the business are always looking to add more talented people to their numbers.

## **2.10 THEORETICAL ASPECT OF CORPORATE GOVERNANCE**

The concept of corporate governance has gained prominence in Ghanaian jurisdiction and the theories underlying the development of corporate governance and the areas it encompasses are drawn from the discipline including finance, law, accounting, management, organizational behavior and economics.

Corporate governance is complex area including legal, financial and economical difference. Therefore some theories may be more appropriate and relevant to some jurisdictions than others or more relevant at different times depending on the stage a particular jurisdiction may be. The core aspect of corporate governance is that by corporate law, company must operate within the shareholder interest and right as its main objective or that board of director's takes a broader shareholder approach to emphasize the legitimate right and interest of the company.

## **2.11 CORPORATE GOVERNANCE IN THE PUBLIC SECTOR**

Corporate governance in the public sector encompasses the policies and procedure used to direct an organizational activity to provide reason assurance that objectives meet and operation are carried out in a ethical and accountable manner. In the public sector, governance

relates to the means by which goals are established. It also includes activities that ensure government credibility, establish equitable provision of the service and ensure appropriate behaviour of government official, reducing the risk of public fraud and corruption.

Broadly speaking, corporate in the public sector refers to the process by which organizations are directed controlled and held to account. Government auditors play an important role in effective public sector governance. Governments throughout the world are structured differently with differing and possibly overlapping mandate and jurisdiction. No single governance model applies to all public sector organization. Nevertheless, certain governance principles are common across the public sector.

Common principles of corporate governance encompass the policies, processes and structures used by an organization to:

- Direct and control its activities
- Achieve its objectives and
- Protect the interest of its diverse shareholder groups in an ethical manner.

The following elements of corporate governance principles are enumerated by the Australian national audit office are relevant in both public and private Sector organizations although they are described in terms applicable to government. Certain directions, code of ethics, overseeing results and accountability reporting aids in public sector corporate governance. The Australia National Audit Office Approach to its auditing responsibilities is based on the four principles of good governance in the public sector agencies, namely; transparency, integrity, accountability and stewardship.

One can therefore conclude the auditor's findings and recommendations represents the critical input in good governance that can lead organization to take prompt and appropriate corrective action to remedy unidentified weakness and deficiencies.

Again, the basic governance principles show that the principles of transparency and probity are essential in the governance of the public sector.

## **2.12 CORPORATE GOVERNANCE IN GHANA**

The definition of corporate governance has received a lot of jurisprudential expositions due to the difficulty that has encumbered legal writers in propounding an adequate definition for the concept. However, corporate governance as a legal conception in corporate law is of much significant in private and public companies ensuring responsible management, transparent and accountable administration and control of companies aimed at high productivity and value creative through the effective participating of shareholders and stakeholders of a company. It is a concept that ensures the legitimate and proper ways in which the organs of a company oversee the administration of a company.

Weak corporate governance structure and poor political mechanism could wane viable companies and at most can pave way for financial crisis, fraud and corruption which sometime lead to total or partial involuntary closure of companies such as Ghana holding industrial company limited and 'Nsawam' cannery Ghana limited. In recent times, there has been a perceptible change in the corporate governance for the purpose of ensuring active corporate business by finance institution such as World Bank. These globalization efforts has rendered corporate governance scheme complex and challenging and have necessitated urgent



review of the system of corporate law with particular emphasize on shareholders interest and rights. It is worth nothing that the power of governance of companies is equitably distributed between shareholders and directors as in democratic governance where constitutional power is shared between the various organs of government. All though the power to direct and administer the affairs of a company under the Ghanaian companies code act 1963 179 is vested in the board of directors, some influential shareholders may hold themselves out as directors and interfere in the affair of the company. Corporate governance is therefore, a legal concept recently conceived in Ghana, as a subject to be followed for the good of shareholders, employees and customers and indeed for the reputation of our national corporation and economy.

### **2.13 IMPACT OF CORPORATE GOVERNANCE ON INTERNAL AUDIT**

The positive effect of corporate governance on different stakeholders ultimately is a strengthened economy and hence good corporate governance is a tool for socioeconomic development. Marc Lane view on corporate governance is the goal promoting positive social change. Lane provides companies and their directors, officers, auditors and shareholders with insight for the compliance of new legislation, rules and responsibilities in response to the avalanche of corporate accounting scandals. On the micro level, corporate governance positively affects some key performance indicators. In a study by standard and poor governance service analysis back-tested the correction of standards and poor's with corporate performance. The results of these tests reveal the statistically significant and practically meaningful predictive powers of the historical scores in terms of medium term financial performance and growth in the market cap. The study also points out that predictive power of

corporate governance in terms of shareholder value exceeds its perception by financial markets.

### **2.13.1 Governance Factors Affecting Internal Auditors' Ethical Decision-Making**

The study of O'Leary & Stwerat (2007) explored the ethical decision making of the internal auditors as well as the influences of corporate governance mechanism thereon. Aside from this, the paper also analyze whether ethical decision making is being influenced by years of experience in internal auditing. The result of the study showed that the internal auditors as a group show a reasonably high sensitivity towards ethical issues. In addition, when assessing the likelihood of internal auditors taking appropriate action when faced with ethical dilemmas, evidence exists that they are not always convinced their peers would behave ethically. The reason behind this perception is that the key corporate governance mechanisms appear to have little influence on the capability of the internal auditors to act in ethical manner, during dilemma in the workplace. The results of the study have implications for the internal audit profession with connection to training and the provision of support mechanisms in order to strengthen the ability of the internal auditor to withstand different pressured when facing ethical dilemmas. If internal audit is considered as a vital component of corporate governance, therefore it is vital that practitioners in the said are must have strong support in the process of making ethical decisions. On the other hand, exactly which components of corporate governance could help to offer the most meaningful support regarding the needs in further assessment? (O'Leary & Stewart 2007)

### **2.13.2 Internal Audit Independence and Corporate Governance**

The study of Barriff (2003) focused on internal audit independence and corporate governance. The study analyzed the internal audit function as a first line protection against insufficient corporate governance and financial reporting. With suitable support from the Board of Directors' Audit Committee, the internal audit staff is in the best position to collect intelligence on unsuitable accounting practices, insufficient internal controls and unsuccessful corporate governance. The result of the study showed that the internal audit scope should be extensive to address strategic business issues as well as increasing some fulfillment audits. There is a strong support for internal audit to play a major role in monitoring in conformity in positive manner. As a result, the Chicago area internal audits groups previously have taken vital steps to move past the dialogues stages and have become vigorously engaged in conformity monitoring (Barriff 2003).

## **CHAPTER THREE**

### **THE RESEARCH METHODOLOGY**

#### **3.1 INTRODUCTION**

This chapter outlines the set of scientific approaches used in gathering information to obtain the relevant data for processing in order to achieve the objective of the study, how it was designed and presented. In addition, it illustrates the area of examination with regards to those interviewed. Furthermore the researchers will also explain how Ghana audit service was chosen, sources of literature, research design, study area and sample size, data collection and data analysis.

#### **3.2 RESEARCH DESIGN**

To enable the researchers address the objectives of the study, a descriptive research was the preferred choice since it was meant to present a picture of the specific details of a business setting among other things. Since the focus is on the internal auditing and its effect on corporate governance in the public sector, the data collection was restricted to employees of public organizations in the Ashanti region. The research was planned to find out the role that the internal audit unit plays to ensure good "corporate governance" and recommend solution to address the challenges of the internal audit unit of public organizations in Ashanti region to enable them improve upon their performance in the governance of the public sector.

#### **3.3 STUDY AREA**

In conducting the study, since the researcher cannot cover the whole of Ghana, Ashanti region was chosen to be the main area of the study to represent the whole country. The researcher

focused on the employees of public organizations in Ashanti region specifically those in management position. The entire districts in the region were also taken into consideration in the selection of the staff for the study.

### **3.4 SAMPLE SIZE**

A sample size of fifty (50) respondents representing 100% of the total population of the public organizations in the Ashanti region were interviewed using both structured and unstructured type of interview. The total respondents included 15 management staffs, 10 accounts officers, 5 operations personnel, 7 internal audit staffs, 3 national service staffs and 10 other staffs to make up the 50 respondents.

### **3.5 METHOD OF DATA COLLECTION**

The method of data collection includes interviews and administration of questionnaires. Both quantitative and qualitative data were collected using open-ended and close-ended questions. Data was collected from both primary and secondary sources.

#### **3.5.1 Primary Data**

Interviews were conducted at the management level to collect data for the study as well as questionnaires. Both structured and unstructured interviews were employed as a tool for collecting data. For the structured interview, a set of prepared questions were administered at different times, the researchers also had other interview with some selected staff to gather more data for the study.

### **3.5.2 Secondary Data**

The researchers also searched for additional information through internet, textbooks, journals, articles, magazines and newspaper publications in the field of the study.

### **3.6 QUESTIONNAIRES DESIGN AND ADMINISTRATION**

The interview guide was designed taking into account factors such as the research questions and objectives of the study. The validity of the question was also considered. To get relevant information needed for this research work, a set of predetermined questions were set on the topic of the study. A few questions were adopted and adapted with majority being developed by the researchers: the close-ended questions meant to illicit quick responses from respondents were used. Open-ended type of questions which allow for flexibility and offer respondents the opportunity to provide answers to questions for which possible answers could not be easily stated were also used.

### **3.7 DATA ANALYSIS**

The data collection for the study was analyzed manually by organizing and assembling the data into a reduced form. This was done by editing for consistency. For the open-ended items, a short list into general items was prepared from the master list of items and a short list into general themes was prepared from the master lists of responses in order to get the key responses that were provided by the respondents. The results were then presented in tables and charts using SPSS with their interpretations.

## **CHAPTER FOUR**

### **RESEARCH FINDINGS AND ANALYSIS**

#### **4.1 INTRODUCTION**

This chapter deals with the research findings and analysis of the data. The details include the personal data of respondents, findings on our three research questions which are as follows; what accounts for the low support for internal audit in the public sector; the necessary actions which will help get the support of management for internal auditing in the public sector organizations; and the link between the quality of service the internal auditor provides for his organization and the attitude of managers towards the internal audit function.

#### **4.2 PERSONAL DATA OF RESPONDENTS**

This section examines the personal data of all the respondents used for the study in terms of gender, job titles, ages and so forth.

**Table 1**

##### **Gender of respondents**

Gender	Frequency	Percent	Valid Percent	Cumulative Percent
female	15	30.0	30.0	30.0
male	35	70.0	70.0	100.0
Total	50	100.0	100.0	

Source: Researcher's field work 2012

The researcher was interested in the gender distribution of all the respondents used for the study. Table 1 shows that, out of the 50 respondents, 15 of them were females which constitutes 30% of the total size. The remaining 70% which makes 35 frequencies were revealed as males.

**Table 2**

**Age of respondents**

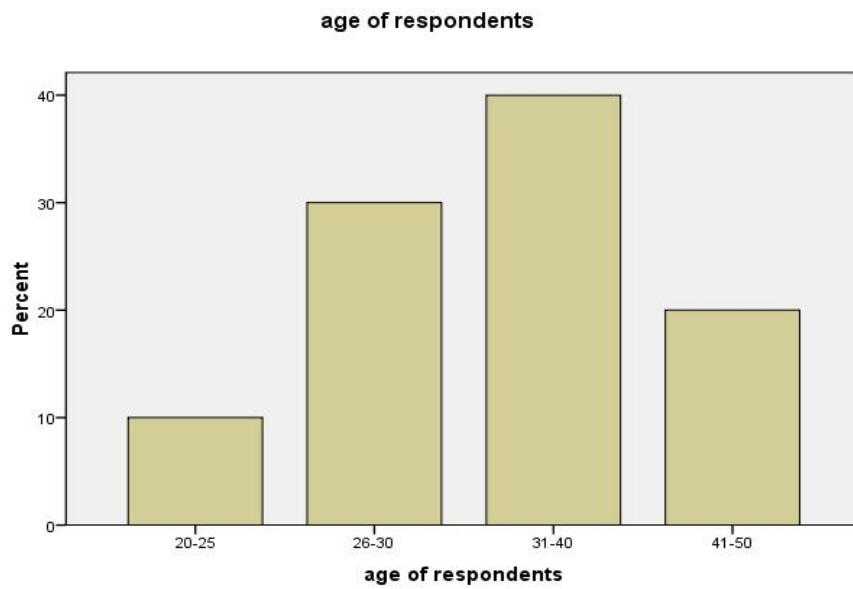
Valid	Frequency	Percent	Valid Percent	Cumulative Percent
20-25	5	10.0	10.0	10.0
26-30	15	30.0	30.0	40.0
31-40	20	40.0	40.0	80.0
41-50	10	20.0	20.0	100.0
Total	50	100.0	100.0	

Source: Researcher's field work 2012

Table 2 represents the age groups of the total respondents for the research. From fig. 4.1.2, the researcher found out that, the majority of public sector workers fall within 31-40 years which represents 20 respondents/frequencies making 40% of the total sample. 15 respondents representing 30% were in 26-30 years, 10 respondents representing 20% were in 41-50 years and the remaining 5 respondents representing 10% were in their ages of 20-25 years.



**Fig 1**



Source: Researcher's field work 2012

#### **4.3 MANAGEMENT SUPPORT FOR INTERNAL AUDIT IN THE PUBLIC SECTOR**

The researcher in this section was interested in knowing about the employees' perception that management of public sector organizations do not support internal audit.

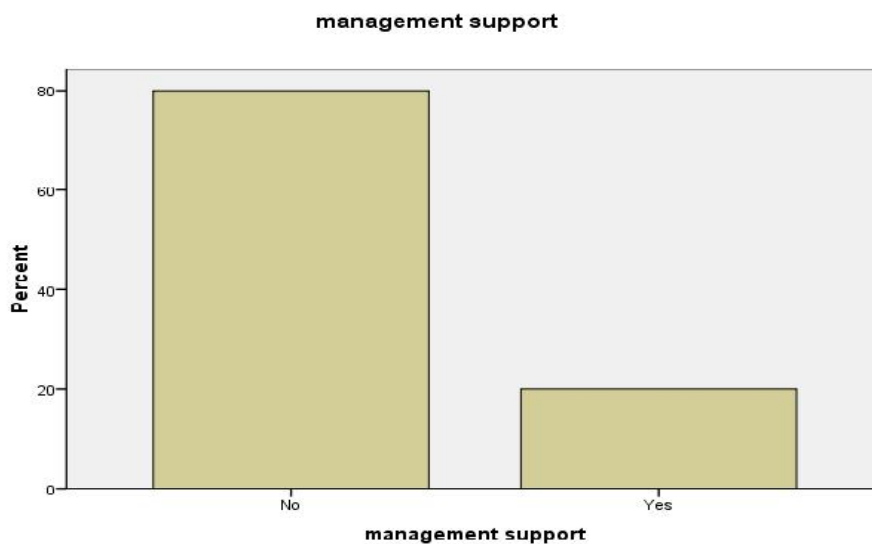
**Table 3**

##### **Management support for internal audit**

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid No	40	80.0	80.0	80.0
Yes	10	20.0	20.0	100.0
Total	50	100.0	100.0	

Findings revealed that, majority of managers in the public sector organizations do not support internal audit. Out of the overall respondents, 40 of them representing 80% think managers do not support internal audit whiles 10 respondents representing 20% think managers support internal audit in the public sector organizations. This is show by the graph below.

**Fig 2**



Sources: Researcher's field work 2012

#### **4.4 PUBLIC SECTOR AND THE INTERNAL AUDIT FUNCTION**

The researcher in this section wanted an idea from the respondents as to whether public sector organizations have internal audit function or unit.

**Table 4**

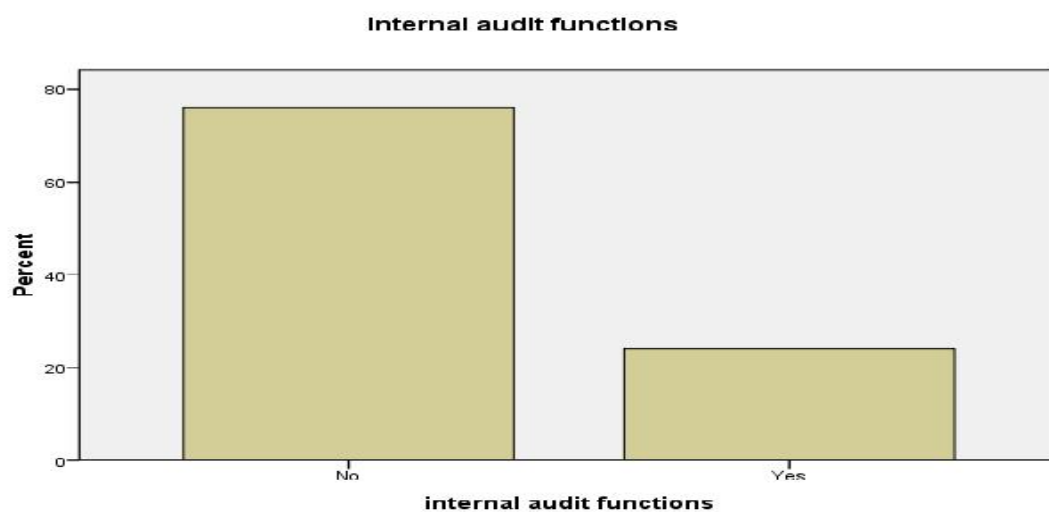
**Internal audit functions in public sector organizations**

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid No	38	76.0	76.0	76.0
Yes	12	24.0	24.0	100.0
Total	50	100.0	100.0	

Source: Researcher field work.2012

From the data collected, 38 respondents out of the 50 representing 76% said that public sector organizations do not have internal audit unit whiles 12 respondents representing 24% said public sector organizations have internal audit unit. This is illustrated by the chart below.

**Fig 3**



Source: Researcher's field work 2012

#### **4.5 INDEPENDENCE, MOTIVATION AND RESOURCES OF THE INTERNAL AUDIT**

In this section, the researcher wanted idea of the respondents as to how independent the internal auditor is in the public sector organizations and how well the internal auditor is motivated and resourced.

**Table 5**

##### **Independency of the internal audit unit**

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid No	44	88.0	88.0	88.0
Yes	6	12.0	12.0	100.0
Total	50	100.0	100.0	

Source: Researcher field work 2012

Table 5 shows that, out of the 50 respondents, 44 who constitute 88% said internal auditors in the public organization are not independent enough based on the fact that the internal auditor is an employee to the organization and in most cases reports to the audit committee and not directly to the executive officer while 6 respondents who represent 12% said internal auditors are independent.

**Table 6****Motivation of the internal audit unit**

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid No	47	94.0	94.0	94.0
Yes	3	6.0	6.0	100.0
Total	50	100.0	100.0	

Source: Researcher's field work 2012

From the data collected, 47 respondents representing 94% of the total sample size of 50 respondents said that, the internal audit unit or function is not highly motivated in terms of incentives, training and so forth whiles the remaining 3 respondents constituting 6% said that, the internal audit unit is motivated enough.

**Table 7****Resource of the internal audit function**

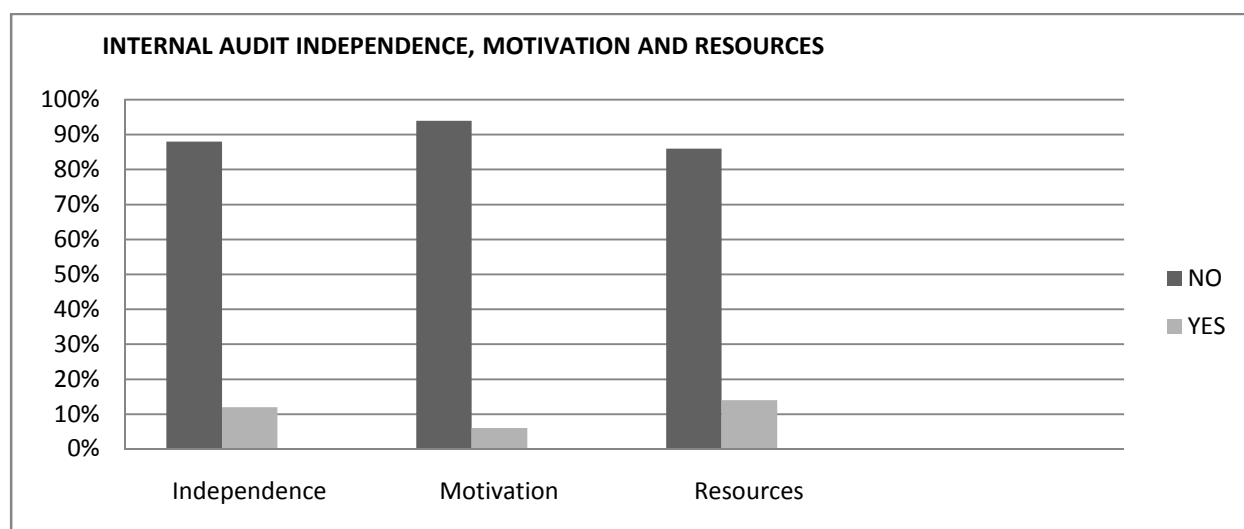
	Frequency	Percent	Valid Percent	Cumulative Percent
Valid No	43	86.0	86.0	86.0
Yes	7	14.0	14.0	100.0
Total	50	100.0	100.0	

Source: Researcher's field work 2012

Table 7 shows how well the internal audit functions or unit in the public sector organizations are resourced. Data collected revealed that, internal audit units are not well resourced in terms

of personnel, infrastructure and so forth. Out of the 50 respondents, 43 representing 86% said the internal audit units are not well resourced in the public sector organizations while 7 respondents making 14% said the internal audit unit is well resourced. These data are shown in the fig. 4

**Fig 4**



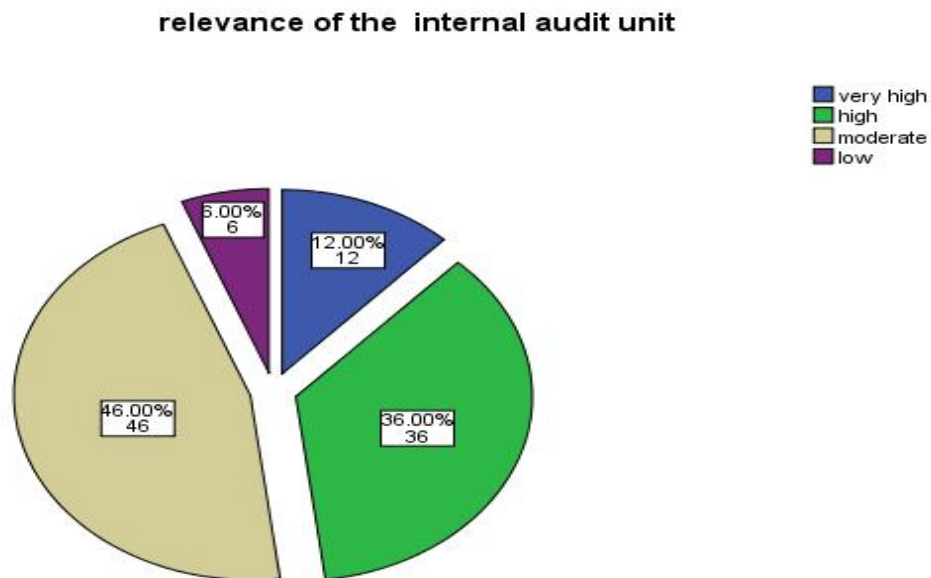
Source: Researcher's field work 2012

#### **4.6 RELEVANCE OF INTERNAL AUDIT UNIT TO PUBLIC SECTOR ORGANIZATIONS**

This section examines how relevant or important internal audit unit is to the employees, management and other stakeholders of the public sector organizations. The data collected shows that, 6 respondents representing 12% see the relevance of the internal audit unit as very high to the public sector organization, 18 respondents constituting 36% see internal audit unit as highly relevant, 23 representing 46% said the relevance of internal audit as moderate and

the remaining 3 respondents see the relevance of the internal audit unit as low. This data is represented below

Fig 5



Source: Researcher's field work 2012

#### 4.7 THE INTERNAL AUDITOR AS PART OF MANAGEMENT

Table 8

The Internal Auditor as part of the management

Valid	Frequency	Percent	Valid Percent	Cumulative Percent
No	30	60.0	60.0	60.0
Yes	20	40.0	40.0	100.0
Total	50	100.0	100.0	

Source: Researcher's field work 2012

The researcher in this section wanted to find out from the respondents whether the internal audit is place appropriately on the organizational chart or as part of management. Out of the 50 respondents, 30 representing 60% said that, internal auditors are not part of management in public sector organizations whiles 20 representing 40% see internal auditors as part of management in public sector organizations.

#### **4.8 STAFFS OF THE INTERNAL AUDIT UNIT IN PUBLIC ORGANISATIONS**

The study also revealed that, public sector organizations lack qualified professionals. This was in the sense that many organizations as seen today are complex to the extent that not just every graduate or any person who practices internal auditing can work with such organization. Qualified professionals here from the respondents mean those who have knowledge in every aspect of the organization and can work with any kind of technology the organization uses. In this study, an open-ended type of question was used to get a qualitative data for analysis.

#### **4.9 MANAGEMENT ACTION ON THE ADVICES AND RECOMMENDATIONS OF THE INTERNAL AUDITOR**

**Table 9**

Valid	Frequency	Percent	Valid Percent	Cumulative Percent
No	27	54.0	54.0	54.0
Yes	23	46.0	46.0	100.0
Total	50	100.0	100.0	

Source: Researcher's field work 2012



In this section the researcher wanted to know about the actions of management on internal auditor's advices and recommendations. Data collected shows that, out of the 50 respondents, 27 frequencies representing 54% said that, management does not consider or carry out advices and recommendations of internal auditors in the public sector organizations whiles 23 frequencies representing 46% said that management carry out internal auditor's advices and recommendations.

#### 4.10 EFFECT OF THE EVOLUTION OF INTERNAL AUDITING

**Table 10**

**evolution of internal audit**

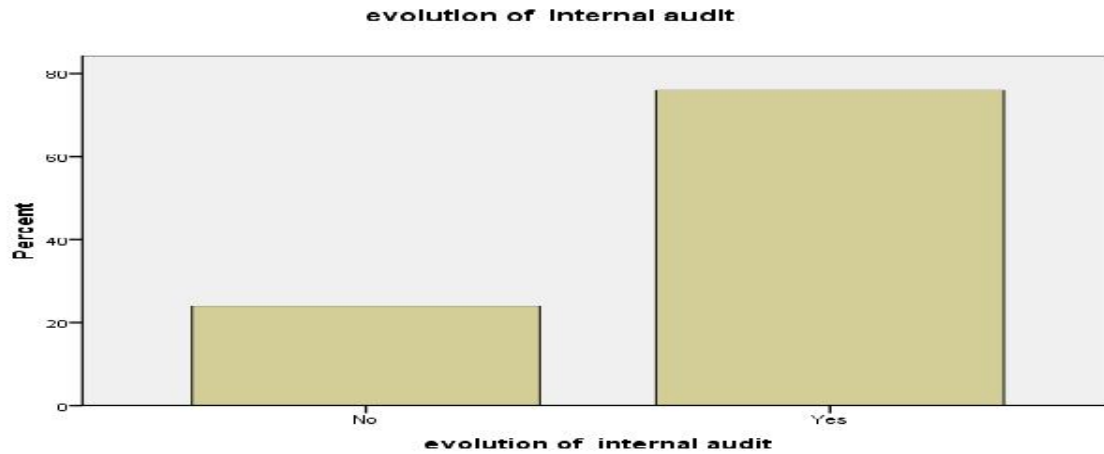
Valid	Frequency	Percent	Valid Percent	Cumulative Percent
No	12	24.0	24.0	24.0
Yes	38	76.0	76.0	100.0
Total	50	100.0	100.0	

Source: Researcher's field work 2012

The researcher in this section wanted the idea of the respondents on how evolution has affected the internal audit activities in the public sector organizations. Out of the 50 respondents, 12 representing 24% said no to the question as to how evolution has affected the internal audit activities whiles the remaining 38 representing 76% thinks that evolution has

affected the activities of the internal audit due to the fact that it has widened the internal audit framework and that management and internal auditors sometime lack clarity on the exact role of the internal audit activity. Results of this finding are shown in the graph below.

**Fig 6**



Source: Researcher's field work 2012

## **CHAPTER FIVE**

### **SUMMARY OF FINDINGS, RECOMMENDATIONS AND CONCLUSION**

#### **5.1 INTRODUCTION**

This section summarizes the overall findings from respondents, the problems identified, the researcher's recommendations and conclusion to the whole research.

#### **5.2 SUMMARY OF FINDINGS**

This section revealed in summary the general findings of the research. The data collected shows that, management of public organizations do not support internal audit activities or internal audit as a unit in the public organizations. It can be seen from the data collected from the respondents in fig. 2 that, 80% of the total respondents answered “no” to the question as to whether management of public organizations support internal audit.

Again, the researcher found out from the respondents that, public organizations internal auditor is not independent, motivated and well-resourced base on the fact that they are not to make decisions and recommendations for the betterment of the company but to cover the deeds of the co-employees. The internal auditors are not motivated enough base on proper incentives, training and so forth and he is not well resourced in terms of infrastructure and other resources.

Also, the data collected showed that, the relevance of internal audit activities in the public organizations is moderate. This means that, management does not see the relevance of employing internal auditor when the internal audit is to examine the operations and activities

of the company including the manager. Out of the 50 respondents, 46% which makes the majority said that having internal audit function or unit in public organizations is neither relevant nor irrelevant in public organizations.

The researcher also found out from his findings that the internal auditor is not placed appropriately on the organizational chart. 30 respondents representing 60% of the total sample size answered “no” as to whether the internal auditor is part of management. The remaining 20 representing 40% said the internal auditor is part of management which can be concluded that, in most cases, the internal auditor does not form part of management.

Results on whether management carries out advices and recommendations of the internal auditor revealed that, out of the 50 respondents, 27 representing 54% said no to the question which can be concluded then that, management majority of managers in the public organization do not carry out the advices and recommendations of the internal auditor.

Respondents think that, evolution of internal audit has added up to the internal audit framework which makes internal auditors and managers lack clarity about the exact role of the internal audit function.

Internal audit in public organizations also lack qualified professionals. Findings from respondents revealed that, public organizations in Ghana specifically Ashanti region where the research was conducted do not employ qualified auditors to perform these internal audit activities. The internal auditors who are also employed are not given the required training.

In conclusion, it can be seen from the findings that, internal auditors lacks qualified professionals, they are not well resourced and motivated and above all, internal auditors are not independently enough to take decisions as to whether public organization financial statements are prepared accordingly and their actions towards fraud, errors and irregularities detected in the course of their activities. These problems face by public organizations internal auditor violate how public organizations are to be operated and directed.

### **5.3 PROBLEMS OF THE INTERNAL AUDIT SERVICE**

The challenges faced by the service in the performance of their duties can be summarized as follows;

- The service receives insufficient funds from the central government to meet its obligations.
- The service also lacks infrastructural facilities such as offices, libraries and residential premises for staff
- Lack of logistics such as vehicles for operational duties , computer for processing data internet available has had serious repercussion on their performance
- Human resource is one of the service short falls. Staff strength of the service is in adequate considering the number of organizations they have to audit. A hand full of the staff are computer literate who can carry out computer-based auditing
- Even the fewer staff are also not motivated in terms of remuneration. This affects the morale of the staff of the service which may have adverse effect on their performance to public duty

## **5.4 CONCLUSION**

From the analysis of findings, the following conclusions can be made on the role of the internal auditing in Corporate Governance. It is evident from the study that, the internal audit service in Ashanti region plays an important role in promoting good governance in the public sector by safe guarding public assets and ensuring good financial management system. They are however not able to play this role effectively and efficiently because of the challenges they face.

Even though systems, procedures and processes are clearly stated to be followed by public officials in the public service and monitored by the internal service, non-compliance and non-co-operation from management negatively affects their governance role in the institutions. Again it can also be concluded that the internal auditors find it difficult to perform their specific responsibilities of preventing, and detecting fraud, errors, irregularities, misappropriation and misuse of public resources. This is because they do not have the needed logistics to enable them carry out their statutory duties. The staff is not well motivated in terms of remuneration, offices and regional accommodation. This affects their morale and does not motivate them to give off their best.

## **5.5 RECOMMENDATIONS**

Based on the findings of the study, the following recommendations are proposed to help the internal audit service in Ashanti region to overcome the challenges it faces' in the performance of their public duties.

### **5.5.1 Budgetary support**

The internal audit service in Ashanti region playing these crucial roles and as a “watchdog” of the public sector institution, it needs to be adequately funded by the Ghana Government. Any other institution (s), foreign agency or government(s) supporting the internal audit service financially will have effect on the their judgment

### **5.5.2 Staffing**

It is evident from the finding that the internal audit service is understaffed, considering the number of public institutions they have to audit. It is recommended that the service should liaise with the national service scheme so that some personnel can be posted to serve to augment their staff strength. Graduate with accounting and auditing background can be employed by the service, given training to help reduce their work load in an acceptably lowest level. The reduction in the work load will enable them to get more time to plan and carry out audit work effectively

### **5.5.3 Condition of service of staff**

We recommend that the government should improve upon the conditions of service of the staff. Necessary arrangement should be made by the fair wages commission and the public service Workers‘ Union for the staff of the service to be migrated to the into the single spine salary structure. Allowances, incentives, and fringe benefits should be provided by the government to retain and motivate the staff of the service

#### **5.5.4 Staff training**

We recommend that the internal audit service should liaise with accounting firms such as price Waterhouse and Coopers, Ernest and Young, Delloite, KPMG, Sethai and associates and other local firms to train both old and new staff of the service. This will provide new staff of the service with requisite knowledge and skills to enable all staff of the service to be abreast with current trends in the auditing profession. Besides, the service should organize refresher courses for the both old and new staff of the service to update them on current trends in the profession.

#### **5.5.5 Specialized staff**

Due to sophisticated nature of some organizations, the internal audit services have difficulties in auditing these institutions. Petroleum companies, mining companies, forestry concessions, pharmaceutical companies etc needs special skills to carry out their auditing successfully. Due to specialized knowledge to audit these companies, we recommend that the internal audit service should employ geologist, petrol chemist, pharmacist, foresters, actuaries and so forth to help them carry out a successful audit in those organizations.

#### **5.5.6 Information Communication Technology (I C T) education**

We recommend that the internal audit service should engage the services of a computer training institution such as IPMC, NIIT, First choice computers, or any of the recognized institutions top rain their staff so that they will be well equipped in ICT to enable them audit institutions that have computerized their financial information to avoid the outsourcing the



computer specialist which cost the service dearly. Funding for such training can be sought from the ministry of finance

#### **5.5.7 Provision of logistics and infrastructure**

The Ashanti region internal audit service should be provided with the needed logistics and infrastructure to enable the staff performs their responsibilities efficiently. Funding for this should be provided by ministry of finance to them charge a small percentage as audit fee and review it as and when appropriate.

Enough vehicles should be provided for the field staff to enable them to carry out their assignments more effectively. Those who use their personal vehicles for official duties should be adequately given allowance.

We also found out that the present regional office is small for its administration. We recommend the movement from the present location to a more spacious place which can accommodate many staff, library, ICT centre, research department, conference hall etc.

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## **APPENDIX**

### **CHRISTIAN SERVICE UNIVERSITY COLLEGE**

#### **DEPARTMENT OF BUSINESS STUDIES**

##### **RESEARCH TOPIC:**

**THE ROLE OF THE INTERNAL AUDITOR IN EFFECTIVE CORPORATE  
GOVERNANCE;**

##### **SURVEY QUESTIONNAIRES FOR RESPONDENTS**

1. What is the gender of the respondent?  
Male ☐ Female ☐
2. Age of the respondent?  
20-25 ☐ 26-30 ☐ 30-40 ☐ 41-50 ☐
3. Please provide your job title .....
4. Do your organization support internal audit?  
Yes ☐ No ☐
5. Does your organization have internal audit function?  
Yes ☐ No ☐
6. Who employs the internal auditor in your organization?  
Government ☐ Management ☐ Other (specify .....
7. Please specify the number of staffs in your internal audit unit? .....staffs.
8. Can you please specify the role of the internal audit to your organization?

.....  
.....  
9. Is your internal audit function well resourced?

Yes ☐ No ☐

10. Do you think the internal audit function is motivated enough?

Yes ☐ No ☐

11. Is the internal audit unit independent? Yes ☐ No ☐

12. Generally how do you rank the relevance of internal audit in your organization?

Very high ☐ High ☐ Moderate ☐ Low ☐

13. Is the internal auditor part of management?

Yes ☐ No ☐

14. Does management carry-out the advice and recommendations of the internal auditor?

Yes ☐ No ☐

15. What do you consider the three most important actions needed to promote internal auditing in the public sector?

a).....

b).....

c).....