

CHRISTIAN SERVICE UNIVERSITY COLLEGE



SCHOOL OF BUSINESS

TOPIC:

THE ROLE OF INTERNAL AUDIT IN FINANCIAL INSTITUTION

A CASE STUDY OF FIRST ALLIED SAVINGS AND LOANS LIMITED

(ADUM BRANCH)

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A PROJECT REPORT PRESENTED TO CHRISTIAN SERVICE UNIVERSITY COLLEGE
SCHOOL OF BUSINESS, ACCOUNTING AND FINANCE DEPARTMENT IN PARTIAL
FULFILMENT OF THE REQUIREMENTS FOR THE AWARD OF BACHELOR OF SCIENCE
IN ADMINISTRATION DEGREE IN ACCOUNTING STUDIES

MAY, 2015

DECLARATION

Student's Declaration

We hereby declare that this project is the result of our own original research and that no part of it has been presented for another degree in this University or elsewhere.

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We hereby declare that, the preparation and presentation of this project work was supervised in accordance with the guidelines on supervision of project work laid down by Christian Service University College, Kumasi

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DEDICATION

We dedicate this piece of work to Almighty God for His guidance and to our parents and loved ones for their morale, financial and spiritual support, our supervisor Mr. Justice Paul Donkor and Dr. Solomon Arhin, Head of Department of Christian Service University College School of Business, Accounting and Finance Department.

ACKNOWLEDGEMENT

We are greatly indebted to the Almighty God for His unfailing health, love, strength and the desired wisdom as well as the undeserved grace granted to us to reach this far in life.

We are also indebted to our supervisor Mr. Justice Paul Donkor, for his supervision, advice and guidance. May Almighty God reward him for his kindness.

We equally wish to acknowledge our lovely parents and all our family members for their contributions.

Also many thanks goes to First Allied Savings and Loans Limited (Adum Branch).

Our final appreciation goes to all our friends who in diverse ways helped in bringing this project to a success. MAY GOD BLESS YOU ALL.

ABSTRACT

The purpose of this study was to assess the role of internal audit in financial Institution with First Allied Savings and Loans Limited (Adum Branch) as the case study. The instruments used were research questions and interviews. The size of the sample was made up of 50 respondents. The researchers throughout the study analyzed the responses obtained from the questionnaire and interview. From the study, it was found that the activities of the internal audit Department of First Allied Savings and Loans Limited as case study were largely effective. Also, it was established that the Bank of Ghana (BOG) as part of restructuring the bank made the establishment of internal audit department a requirement in order to strengthen and deepen the governance process. The result of this work will contribute immensely to the improvement and effective performance of the internal audit department of First Allied Savings and Loans (Adum Branch).

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CHAPTER ONE

INTRODUCTION

1.0 Background of the Study

Internal audit is an independent examination of an expression of an opinion on the financial statements of an organization for the review of its operations and as a service to management (ACCA, 1992). It is an element of the internal control system set up by management of an enterprise to examine, evaluate and report on accounting and other controls on operations.

According to Audit Service Corporate Plan (2003), colonial administrators as far back as 1910 ensured that, financial as well as quantitative records within the various enterprises were audited in Ghana. Institutions were to ensure the efficient management of their resources. With the increase in size and complexity of business organization, it became necessary to institute control measure over all aspects of business activities. One method of controlling is through internal audit system. It is the researcher's objective to assess the functions of the internal audit unit at various financial institutions to establish, if, it is performing its expected role.

Arguably, it can be said that, the pace of economic development of a country, can be strengthened by a well developed financial system. Economic growth requires the needed capital formation necessary to speed up economic development; this means that, adequate savings and sound financial institutions are required for the economy to take off and to ensure sustainable economic development. The financial institution of a country comprises banking sector and non-banking sector. The basic distinction between these two (2) is that, the banks can create a means of payment whereas, the non -banks cannot create the means of payment. However, the research is focused on banks. According to Abel etal. (2005), banking is the act of accepting deposits of money and other valuables from the public for safe-keeping and giving them back on demand by the depositor or on his order.

Banking in Ghana was pioneered by the Standard Chartered Bank, then known as the British Bank of West Africa in 1897. The Bank operated in Ghana and Nigeria (www.standardchartered.com).

According to Okai (1996), in 1917, there was the establishment of the second bank in Gold Coast called the Colonial Bank. It was acquired by the Barclays Bank of Ghana in 1925. The Standard Chartered Bank and Barclays Bank dominated commercial banking in Ghana until 1953 when a wholly state owned bank, the Bank of Gold Coast was established. The idea of the establishment of the Bank of the Gold Coast was the brain-child of Sir Cecil Trevor in 1948, (www.gov.GH). Banks in Ghana currently are including the following commercial banks, development banks, and so on.

Banking functions in Ghana today include acceptance of deposits, granting of credits or loans, acting as trustees and executors of will, business advices to customers, provision of safe custody of customer's valuables, special customer service, foreign trade and currencies transfer, banker reference and direct investments.

1.1 Statement of the Problem

In Ghana, almost all the banking institutions in the nation have internal audit sections. The fact that all the banking institutions have internal audit departments which are fully recognized indicates that, internal audit plays an essential role in the running of such banking institutions. However, there is evidence of fraud in financial institutions. For instance there are cases of controversial debit in customers' accounts and sometimes tellers who receives deposits when the system (network) is down fails to credit the respective accounts when the system resumes. Internal audit department has been institutionalized to oversee all the internal controls of these financial institutions to ensure that, they are working effectively, yet there are many violations in

the internal systems. Therefore, the main question is what are the effects of internal audit departments in the financial institutions?

1.2 Objectives of the Study

The objectives of the study are to:

- ❖ Assess the competence of the internal audit staff.
- ❖ Determine the level of independence of the internal audit unit.
- ❖ Assess the importance management attaches to internal audit report.
- ❖ Assess whether the activities of the internal audit conform to the policies of the company or the institution.
- ❖ Evaluate the contribution of the internal audit to financial discipline at the banks.

1.3 Research Questions

- ❖ What are the qualifications and experiences of the internal audit staff?
- ❖ How independent is the level of internal audit unit?
- ❖ How does management consider the importance of an internal audit report?
- ❖ How does the activity of internal audit conform to the policies of the company?
- ❖ In what ways does internal audit evaluate financial discipline at the bank?

1.4 Significance of the Study

- ❖ The research report would be of benefit to the internal auditor in his capacity to advise management in all financial matters.

- ❖ The findings of the research would enlighten the management of the bank in the implementation of effective method of control and assessing the role of the internal auditors.
- ❖ The research would also be of benefit to shareholders, who are the owners of the bank.
- ❖ Shareholders may become effective in the participating in corporate governance through internal audit.
- ❖ Internal audit would be of help to the board of directors to take management responsibilities and also promote positive interaction with the members of the staff.
- ❖ It also provides assurance and consulting services, to guarantee the core stakeholders to acquire the information they need about the bank.
- ❖ Also, the research would be of benefit to the members of staff, where they hope to know the information of the bank to ensure their legitimate right in the bank.
- ❖ The report would serve as reference material to other researchers who would undertake similar study in the future.

1.5 Limitations

In undertaking the study, certain obstacles were encountered. Time constraint was the major obstacle for this study. The research work did not begin early and therefore, there was only a limited period for the research to be completed and this put a lot of stress on the researchers.

Also, financial resources required for the study were woefully inadequate.

No grants were given for the research, and the researchers had to rely on his limited resources to finance the project.

In the collection of data, some staff members were not willing to give out some vital information which they considered confidential. The researchers had to use a great deal of tact and persuasion to gather the necessary information.

Finally, combining academic work with research work was very difficult.

1.6 Delimitation of the Study

This study will focus on the management of First Allied Saving And Loans Limited (FASL) (Adum-branch). A sample of fifty-six (56) populations which comprises of management and staff would be considered.

1.7 Organization of the Study

The study comprises five chapters. Chapter one which is the introduction, comprises of the background of the study, statement of the problem, objectives of the study, research questions, significance of the study, limitations, delimitations and organization of the study.

- ❖ Chapter two covers review of related literature.
- ❖ Chapter three describes the method used in collecting data.
- ❖ Chapter four covers the findings of the study.
- ❖ Chapter five covers the summary of the findings, conclusions and recommendations.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

This chapter contains a review of what others have written about the topic. Some of the related topics reviewed , include the meaning of audit, internal control, internal audit, evolution of internal audit, objectives of internal auditing, scope of internal audit qualities of internal auditor, professional proficiency, independence of internal auditor, internal audit reports and the relationship between internal and external auditors.

2.1 Meaning of Audit

An audit is defined by different authors in various ways. The Association of Accounting Technicians (AAT,2000) defined an audit as “a process which results in expression of an opinion as to whether the financial statements give a true and fair view of the entity’s affair at the period and as to whether they have been properly prepared in accordance with the applicable accounting standards.”

The Association of Certified Chartered Accountant (1992) also defined an audit as “the independent examination of an expression of an opinion on the financial statements of an enterprise”. Taylor and Glezen (1994) and Messier (1997) are all of the same view that auditing is the systematic process of objectively obtaining and evaluating evidence regarding assertions about economic actions and events to ascertain the degree of correspondence between these assertions and established criteria and communicating the results to “interested users “. According to Okai (1995), an Audit is an independent examination of records’ documents, accounts etc., with the view of enabling the auditor expresses his opinions on the financial statement of an enterprise.

All the above definitions indicate that, auditing is an examination of accounts by an independent person and then express an opinion afterwards.

2.2 Internal Control

Management of organizations normally establishes measures internally in order to carry on the activities of an enterprise effectively. These measures are often referred to as internal control.

According to Whittington and Pany (1995), internal control is defined as “the individual component of the whole system of controls, financial and otherwise established by management in order to carry on business of the enterprise in an orderly and efficient manner, ensure adherence to management policies, safeguard assets and secure as far as possible the completeness and accuracy of the records”.

Millichamp (1993) gave the same definitions as Whittington and Pany (1995) and added that, system of procedures established to produce reliable records is termed the internal control system and this is the basis of all audit work.

According to Robertson (1996), internal control is a process affected by an entity’s board of directors, management and other personnel, designed to provide reasonable assurance regarding the achievement of reliability of financial reporting, compliance with applicable laws and regulations, effectiveness and efficiency of operations.

Robertson (1996) continued that, internal control consists of five interrelated components.

These are:

Control environment: - Control of environmental factors includes the integrity, ethical values and competence of the company’s people.

Management control activities: - Control activities are the policies and procedures that help ensure the management directives are carried out.

Management monitoring: - Management should assess the quality of its control performance on a timely basis .Monitoring includes regular management and supervisory activities and the action personnel take in performing their duties.

Management risk assessment: - Management should assess the risk present in the financial reporting category. All companies face the risk that their financial statements may be unreliable.

Management information and communication systems : - The information and communication components of internal control is a necessary prerequisite for establishing , maintaining and changing control features in a company .

According to Whittington and Pany (1995), information and communication system capture, process and report information to be used by parties both within and outside the organization.

2.3Internal Audit

Internal auditing has been given various interpretations by various writers on the topic. Taylor and Glezen (1994), defined internal auditing as “an independent appraisal function established within an organization to examine and evaluate its activities as a service to the organization”

According to Okai (1996), Millchamp (1993) and (ACCA), internal auditing is an “independent appraisal activity within an organization for the review of operations as a service to management.”

Millchamp (1993) continued that, internal audit objectively examines, evaluates and reports on the adequacy of internal control as a contribution to the proper, economic, efficient and effective use of resources.

ACCA (1992) and Millichamp (1993) emphasized on essential elements of internal auditing.

They include the following:

- ❖ Independence – The internal auditor should have the independence in terms of organizational status and personal objectivity, which permits the proper performance of his duties. The internal auditor should not be influenced or controlled in anyway.
- ❖ Relationships – Internal auditor should seek to foster constructive working relationships and mutual understanding with management, with external auditors with any other review agencies and where one exists with the audit committee.
- ❖ Reporting and follow up – The internal auditor should ensure that findings, conclusions and recommendations arising from each internal audit assignment are communicated promptly and accurately to the appropriate management level. The internal auditor must produce comprehensive report on regular basis and give recommendations for changes.
- ❖ Staffing – The internal auditor should be appropriately staffed in terms of numbers, grades, qualifications and experience having regard to its responsibilities and objectives.
- ❖ Due care – The internal auditor cannot be expected to give total assurance that weakness do not exist but he should exercise due care in fulfilling his responsibilities.
- ❖ Evidence – The internal auditor should obtain sufficient, relevant and reliable evidence on which to base reasonable conclusions and recommendation.
- ❖ Planning, controlling and recording – The internal auditor should adequately plan control record his work. As part of the planning process, the internal auditor should identify the whole range of systems within the organizations.
- ❖ Evaluation of internal control system – The internal auditor should identify and evaluate the organization's internal control system as a basis of reporting upon its adequacy and effectiveness.

2.4 Evolution of internal Audit

Internal auditing has evolved to meet the needs of business and governmental and non –profits organization.

According to Whittington and Pany (1995), originally, a demand for internal auditing arose when managers of early large corporations recognized that, annual audits of financial statements by Certified Public Accountant (CPA) were not certified sufficiently. A need existed for timely employee involvement beyond that of Certified Public Accountant to ensure accurate and timely financial records and to prevent fraud.

Subsequently, the role of internal auditors expanded as a result of demands by the major stock exchanges and the Securities and Exchange Commission for demand for more management responsibility for the reliability of published financial statement. Gradually, the role of internal auditors expanded to encompass overall operational policies and procedures. As organizations become larger and more complex, they encounter additional operational problems that lent themselves to solutions by internal auditing. The extension of internal auditing into these operational activities required internal auditors with specialized knowledge in other disciplines such as economics, law, finance, statistics, computer processing, engineering and taxation.

2.5 Objective of Internal Auditing

Robertson (1996) and Okai (1996) both agreed that, the objective of internal auditing is to assist members of an organization to the effective discharge of their responsibilities.

Internal auditing has the objectives of furnishing members of the organization with analysis, appraisal, recommendations, counsel and information concerning the activities reviewed.

The internal auditors are therefore concerned with any phase of the organization, where they provide service to management, the work normally involves going beyond the accounting and

financial records to obtain understanding of the operations. To achieve these objectives, the internal auditor undertakes the following functions according to Okai (1996).

- ❖ Ascertaining reliability and relevance of management data developed with the organization.
- ❖ Ascertaining the effectiveness of established policies, plans and recommending operative improvements.
- ❖ Reviewing and appraising the soundness, adequacy and application of accounting, financial and other operating controls recommending effective controls at reasonable cost.
- ❖ Millichamp (1993) also shares the same view as Okai, stated above.

2.6 Scope of Internal Audit

The Institute of Internal Auditors (IIA) described the scope of internal auditing as encompassing the examination and evaluation of adequacy and effectiveness of the organization's system of internal control and the quality of performance in carrying out assigned responsibilities.

Specially, the scope includes the following:

- ❖ Reviewing the reliability and the integrity of financial and operating information and the means used to identify measures, classify measures, classify and report such information.
- ❖ Reviewing the systems established to ensure compliance with those policies, plans, procedures, law and regulations, which could have significant impact on operations, reports and determine whether the organization is in compliance.
- ❖ Reviewing the means of safeguarding assets and as appropriate, verifying the existence of such assets.
- ❖ Appraising the economy and efficiency with the resources employed.

According to Whittington and Pany (1995), the scope involves reviewing operations or programmes to ascertain whether results are consistent with established objectives and goals, and whether the operations or programmes are being carried out as planned.

Millchamp (1993), ACCA (1992) and AAT (2000) stated that, the scopes of internal auditing are:

- ❖ Reviewing of accounting system and internal controls.
- ❖ Examination of financial and operating information.
- ❖ Reviewing of the economy, efficiency and effectiveness of operating, including non-financial controls.
- ❖ Reviewing of compliance with law, regulation and other external requirement with internal policies, directives and other requirement including appropriate authorization of transactions.
- ❖ Special investigations into particular areas, for example suspected fraud.

The scope of internal auditing therefore means the extent of work the internal auditor is expected to carry out.

2.7 Qualities of Internal Audit

Qualities of internal auditor are the attributes or skills that an internal auditor may possess in order for him to carry out his work effectively.

Millichamp (1993) and Okai (1996) both share the same view on the qualities of an internal auditor. According to them, most of the internal auditors have been accountants or are accountants. Apart from technical or academic qualification, it is important to choose an internal auditor with the right personnel qualities, like following:

- ❖ Easily acceptance to all level of management that is using diplomacy and tactfulness as an effective working approach.

- ❖ Being able to express oneself orally as well as in writing.
- ❖ The internal auditor should also be able to think like management or people of high managerial thoughts and giving good idea of their problems and being objective when revealing situations.
- ❖ He should also have the ability to suggest reasonable recommendation on detected weakness or breakdown.

2.8 Professional Proficiency

Professional Proficiency is the responsibility of the internal auditing department and each internal auditor.

Whittington and Pany (1995) stated that, an internal auditing department should establish policies and procedures that provide assurance that, staff members are competent with professional proficiency. According to them, the internal audit department should collectively possess the skills and knowledge necessary to fulfil all the audit requirements of the organization.

An internal auditing department should establish internal policies for assigning staff members to audit areas, so that the auditor will be competent to successfully complete those assignments.

Internal audit should be performed with proficiency and due professional care.

They further explained that the internal auditing department should provide assurance that the technical proficiency and educational background of internal auditors are appropriate for the audit to be performed. The internal auditors should comply with professional standard of conduct. They should also be skilled in dealing with people and in communicating effectively.

Internal auditors should maintain technical competence through continuing education and should exercise due professional care in performing their functions

2.9 Independence of Internal Auditor

Internal auditors are employees of the organization whose records and procedure they examine. They own their primary allegiance to the organization. Taylor and Glezen (1994) explained that, all the standards in the code of professional conduct perhaps they are more important than independence, which they defined as “the ability to act with integrity and objectivity”. Independence precludes certain relationships that may appear to impair objectivity in rendering auditing and other attestation services. In providing all the services, a member should be objective and avoid conflicts of interest. According to Arens and Loebbecke (1994), independence in auditing means taking an unbiased view point in the performance in the audit test, the evaluation of the results and the significance of audit report.

An internal auditor should be independent in fact and independent in appearance. Independent in fact exist when the auditor is actually able to maintain an unbiased attitude throughout the audit work, whereas independent in appearance is the result of others interpretation of his independence. Robertson (1996) explained that, although internal auditors cannot be disassociated from their employers in their eyes of the public, they seek operational and reporting independence. Operationally, internal auditors should be independent when obtaining evidence, in the sense of been free from direction of constraints by management. Independent and objectivity are enhanced by having the authority and responsibility to report to a high executive level and to the audit committee of the board of directors.

The goal of the internal auditor is a measure of practical independence from the control of direct influence of operating managers whose functions, operations and results they may assigned to audit. Practical independence enables the internal auditors to be objective in reporting findings

without having to fear for their jobs. The independence of an internal auditor is seen as when he can carry his work freely and objectively.

2.10 Internal Audit Report

According to Arens and Loccbbocke (1994), report is the final stage in the audit process, which is the communications of the findings to users. Report is different in nature, but in all case they must inform readers of the degree of correspondence between qualifiable information and established criteria .The auditor should report on the matters outlined in systems of control and wing the accuracy of information given to management and given recommendation for changes. Millichamp (1993) and OKai (1996) also state that, the internal auditor is to produce timely, accurate and comprehensive report to management on regular basis.

Robertson (1996) explained that, the reporting stage is the internal auditor's opportunity to capture management's undivided attention. Internal audit reports are usually considered "open" until a formal written reply to recommendations received from management of the audited unit or department. This reply, which goes to the same people who receive the audit report indicate which recommendations were implemented and which were not .Only after the written response is received is the audit considered "closed". Another procedure unique to internal audit reporting is that, the criticism and recommendations are usually reviewed with the audit management before they are included in final report.

2.11 The Relationship between Internal and External Auditor

According to Arens and Loebbecke (1994), there are both difference and similarities between the responsibilities and conduct of audits by internal and external auditors. The primary difference is whom each part is responsible to. The external auditor is responsible to financial statement users

who rely on the auditor to add credibility to the statement .The internal auditor is responsible to management. There are many similarities between the two groups.

Both must be competent as auditors and remain objective in performing their work and reporting their results. They both for example, follow similar methodology in performing their audit.

External auditors rely on internal auditors through the use of the audit risk model.

External auditors typically consider internal auditors effective if, they are independent of the operating units being evaluated, competent and well trained and gave performed relevant audit tests of the internal control structure and financial statements.

Millchamp (1993) explained that, internal and external auditors have common interest.

The common interests include:

- ❖ An effective system of internal control
- ❖ Continuous effective operations of such system
- ❖ Adequate management information flow
- ❖ Asset safeguarding
- ❖ Adequate accounting system and
- ❖ Ensuring compliance with statutory and regulatory requirements

CHAPTER THREE

METHODOLOGY

3.0 Overview

This chapter describes the method used by the researchers in getting information for the study. It covers the research framework, population and sample, sampling technique, data collection instrument, data collection methods and method of data analysis.

3.1 Research framework

The research is in a case study framework. Case study gives an opportunity for one aspect of a problem to be studied into some depth within a given time. The researchers identified a problem with the internal audit function in the financial institution.

Data was collected on internal audit function at First Allied Savings and Loans Limited (FASL) (Adum-branch) by the use of interview and questionnaire. The researchers analyzed the data and arrived at conclusion and made recommendations.

3.2 Population and Sampling

This study focuses on the entire staff of First Allied Savings and Loans Limited (FASL) (Adum-branch) as the population. Samples of fifty six (56) staff including the internal auditor were selected for the study.

3.3 Sampling Technique

The researchers used a combination of purposive sampling and random sampling techniques to select the sample elements. The internal auditor was purposively selected whereas the fifty non-

audit staffs were selected randomly from the accounts, banking, marketing, information, and technology and treasury departments.

3.4 Data Collection Instrument

The researchers used questionnaire and interview to obtain data for the study. Questionnaires were used because they allowed the respondents some time to give the right responses. The questionnaire, which was constructed by the researchers, contained closed questions and open ended ones (appendix)

3.5 Data Collection Methods

The questionnaire was presented personally by the researchers to the respondents. The researchers were made to explain and clarify certain questions. The questionnaires were given out for about a week after which the researchers went for the completed questionnaires.

This internal auditor was interviewed at his office for about an hour. The researchers recorded the responses in a notebook.

3. 6 Method of Data Analysis

The responses were arranged in categories, analyzed and presented mainly in a narrative form, also some quantitative tools such as averages and percentages and were also used in the analysis.

Tables were used to illustrate some of the finding.

CHAPTER FOUR

DATA ANALYSIS AND DISCUSSION OF RESULTS

4.0 Introduction

The purpose of the study is to assess internal audit function at First Allied Savings and Loans Limited (FASL) Bank (Adum-branch). This chapter covers the analysis of the data collected. Fifty-six (56) questionnaires were sent out; fifty (50) of them were completed and returned, given a rate of response of 89%.

4.1 Background of Respondents

Twenty-nine (29) of the respondents were females and twenty-one (21) were males including the internal auditor. Their ages ranged from twenty-six (26) to over forty years. Majority of the respondents including the internal auditor had worked at First Allied Savings and Loans Limited (FASL) (Adum-Branch) within five years. Apart from six personnel from the internal audit unit including the internal auditor, the rest of the respondents were from information technology, marketing, treasury, operations and customer relations departments.

4.2 Staffing

The quality and neatness of internal audit work depends much on the competence of internal audit staff. The internal auditor upon interview disclosed that, there was seven (7) staff in the internal audit department of which one was on leave. As to how often staff undergoes training to upgrade their knowledge and skills, the internal auditor disclosed that seminars and workshops were organized for staff once a year and other accountancy courses such as Association of Certified Chartered Accountants and Institute of Chartered Accountants at various levels and other Auditing courses are also undertaken.

As answer to whether the internal audit staff exhibited competence in fulfilling their responsibilities, all of the respondents, responded yes with reason that, they are well trained staff.

4.3 Function of Internal Auditor

Eight respondents said the principal reason for the establishment of the internal audit department at First Allied Savings and Loans Limited (FASL) (Adum-branch) was for auditing purpose, thirteen respondents stated that, it was for checks and balances to improve operation, nine responded, it was to ensure financial discipline, six responded it was to detect fraud and pilfering, seven responded it was to check and report on compliance to policies and procedures, three said it was to ensure that internal controls and measures are being properly used and four respondents said it was to evaluate the effectiveness of the company's internal control. The internal auditor said that, it was established to meet legal requirement, to assist members of the organization to discharge their responsibilities effectively and to ensure adherence to company's policies. With respect to how the activities of the internal auditor conform to company policies, all the fifty (50) responded that, it conform to company policies because it ensures that, laid down policies are followed

4.4 Relationship with Audit and other Staff

The relationship between internal audit staff and management and other staff should be cordial for effective discharge of work. The response of respondents on the relationship between internal audit staff and other staffs are shown in Table 4.1 below:

Table 4.1: Relationship between Audit Staff and Other Staff

Relationship	Number of respondents	Percentages (%)
Cordial	38	76
Not cordial	8	16
Not sure	4	8
Total	50	100

Source: field study (2015)

From the Table 4.1, it can be seen that, most of the respondents think the relationship between internal audit staff and other staff (including Management) is cordial with the reason that, they are seen as colleagues. Anytime auditing is being conducted, the staff has the impression that it was to improve operations and to achieve corporate objective. Finally, internal audit staff and other staff members have good relationship

4.5 Independence

The internal auditor is to be independent from management influence. On how independent the internal audit department is from management influence, questions like who appointed the internal auditor and who does the internal auditor reports to were asked to know the independence of the internal auditor. The responses are analysed in subsequent sub section.

4.5.1 Appointment of internal Auditor

As per the standard, internal auditors are appointed by the internal audit committee of the board. This is done to make the department more independent as well as being a consultant for the board.

Table 4.5.2 Appointment of Internal Auditor

Relationship	Number of Respondents	Percentage (%)
Board of Directors	12	24
Managements	26	52
Shareholders	2	4
HR Department	10	20
Total	50	100

Source: Field Study (2015)

From the Table 4.2, it can be seen that, twelve (12) of the respondents said the internal auditor was appointed by the board of directors. The respondents who said the internal auditor was appointed by management and shareholders were twenty-six and two respectively and ten for human resource department. The internal auditor also discloses that, his appointment was done by the appointment committee of the board. The control of the organization is significantly influence by the effectiveness of the board of directors. Finally, it is important to note that, the independence of the internal auditor is likely to enhance the effectiveness of internal audit activities.

Table 4.3 Whom the internal Auditor Reports to

Relationship	Number of Respondents	Percentage (%)
Board	35	70
Management	6	12
Shareholders	3	6
Finance Manager	6	12
Total	50	100

Source: field study (2015)

The Table 4.3 shows that, the internal auditor reports to the board of directors and management.

The internal auditor said findings or report are sent to the board of directors therefore, he is not under any influence. Finally, the internal auditor has the commitment to give or express an opinion on accounting information or issue audit report to the board of directors which ideally confirms the independence of the internal auditor.

4.6 Performance of Audit Work

The internal auditor said the major constraint that fights against the effective discharge of his work is the corporation of other staff in various departments. The internal auditor said that, the right of access to all the records of the company is not a problem. The internal auditor also disclosed that there should be training, seminars, workshop to upgrade the knowledge of the internal audit staff.

4.7 Internal Audit Report

Recommendations and findings should be taken into consideration by the board. Regarding the implementation of internal audit report, the responses are shown in the Table below:

Table 4.4: Frequency of Implementing and Recommendations

Frequency	Number of respondents	Percentage (%)
Very often	18	36
Sometimes	8	16
Not often	8	16
Not sure	16	32
Total	50	100

Source: field Study (2015)

From the Table 4.4, it can be seen that, audit finding and recommendations are implemented very often as stated by majority of the respondents though the 36% is on the lower side. The internal auditor said that, findings and recommendations are implemented very often since external auditors and the Bank of Ghana also uses it when embarking on auditing. To ensure that, the existence of rules and regulations are in compliance with the work of the staff members and they are governed by code of conduct applicable to the standard to achieve the objective of the bank. Finally, base on the recommendation of the internal auditor, the board is able to ensure effective and efficient discharge of duties of the staff members.

4.8 Reliance on Findings by External Auditor

External auditors rely on internal audit findings when undertaking an audit work. On the extent to which external auditors rely on internal audit findings, an interview was held with the internal auditor ,which revealed that, external auditors rely on the internal auditor's findings when it is needed for further auditing investigations into other things.

4.9 Prevention of Fraud

Responding to the extent to which the internal audit department has contributed to the prevention of the fraud, questionnaires were administered and data were gathered and the responses are shown in the Table below:

Table 4.5: Internal Audit's Contribution to Prevention of Fraud

Contribution	Number of respondents	Percentage (%)
No Answer	-	-
Large	30	60
Little	11	22
Not sure	9	18
Total	50	100

Source: Field Study (2015)

It can be seen from the Table 4.5 that, the majority of the respondents are saying that, the extent to which the internal audit department has contributed to the prevention of fraud is large.

On the same issue, the internal auditor said, the internal audit department has contributed immensely to the prevention of fraud at First Allied Savings and Loans Limited (FASL) (Adum-branch).

4.10 Rating of Internal Audit Function

Internal auditing is very necessary in every institution. When asked whether internal auditing was necessary in the organization, the responses to it are in the Table below:

Table 4.6: Rating of Internal Audit Function

Rating	Number of respondents	Percentage (%)
Important	25	50
Fairly important	10	20
Not important	7	14
Not sure	8	16
Total	50	100

Source: Field Study (2015)

From the Table 4.6, twenty-five (25) respondents think that, internal auditing is important with the reason that, it ensures adherence to the company's policies, to detect fraud in the organization and also to assist members of the organization in effective discharge of their responsibilities. The respondent who said that, it is fairly important did not give any reason to support it.

Seven (7) people also said that, they are not important because, it has contributed little to the prevention of fraud in the institution. In relation to the extent, the internal auditor has contributed to the financial discipline at First Allied Savings and Loans Limited, the internal auditor said, it

has contributed immensely to the financial discipline at First Allied Savings and Loans Limited (FASL) (Adum-branch) because, ever since it was set up in the institution, it has helped to minimize external audit queries in organization.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

The main objective of the study was to assess the elements of internal auditing at First Allied Savings and Loans Limited. (FASL) (Adum-branch).The researchers found out that, the principal reason for establishing internal audit department was to satisfy statutory requirement or to meet legal requirement. Other reasons such as to detect fraud and prevent it in the institution and to assist members of the institution to effectively discharge their duties and responsibilities to ensure adherences to company's policies were also found.

The researchers show that, the activities of the internal auditor conform to company's policies. It was found out that, the internal audit staffs exhibited competence in fulfilling their responsibilities. The researchers realized that, the internal audit department is independent from management influence because the internal audit reports are given to the board of directors and the internal auditor was also appointed by the board of directors. Findings and audit recommendation are always implemented since the external auditors and Bank of Ghana sometimes rely on the audit work of the internal auditor. The study also showed that, the internal audit department had contributed greatly to the prevention of fraud.

5.2 Conclusions

The internal audit is effective at First Allied Savings and Loans Limited (FASL) Bank (Adum-branch) in the sense that, the internal auditor's report are sent to the board of directors and he was also appointed by the board of directors, which is the highest level of authority. This gives the internal auditor the needed independence to operate, since the internal auditor is not under any influence from management. The board of directors attaches much importance to the findings and recommendations of the internal auditors, since the external auditors and Bank of Ghana relied on the findings and the recommendations for further auditing work.

The internal auditors have access to all records of the institution. This encourages the internal auditor to come out with every truth in the findings and also declare whether various accounts show true and fair view. Aside all the contributions of the internal audit department to the institution, there were few weakness that were observed. The relationship between the audit staff and the other staff was seen not to be cordial. This can have effect on the findings, since right and accurate information may not be revealed by the staff to the internal audit department. The internal auditor is seen as intruder and troublesome because, internal auditor goes to them with the intension that, auditing work supersedes that of the other work rendered by the other staff.

5.3 Recommendations

The following suggestions should be taken into consideration for the improvement of the internal audit department in the institution.

- ❖ There should be regular seminars and workshops for staff to upgrade their knowledge and to show better level of maturity in executing their responsibility.

- ❖ The cordial relationship between the internal audit staff and management should be maintained and improved on what currently exists between the internal audit staff and the other staff, since they need corporations of each other for better work done.
- ❖ Internal audit department should be fully equipped with good workers and materials for effective discharge of work.
- ❖ This study is limited to First Allied Savings and Loans Limited (FASL) (Adum-branch), it is recommended to future researchers to undertake similar studies in other institution in the country.

5.4 Suggestions for Improvement

The respondents made the following suggestions to the improvement of internal audit. A Well-established internal audit department must be created with its staff fully equipped with accounting systems. That is, auditing, accounting software and computer knowledge. Internal audit department staff should be twice the current number since they audit all the branches of the institution. The internal audit department should see other workers as colleagues to help them discharge their duties and responsibilities effectively. Auditor's recommendation and findings should be considered as soon as it reaches management. The internal audit department must conceal the mistakes and wrong procedures found in other department to show their level of maturity in auditing. Staff in the auditing department should be motivated and be given adequate security since other staff threatened them always. The internal auditor suggested that, for the internal audit department to function effectively the reports , findings and recommendations and suggestion should always be taken into consideration as soon as it gets to management, workers should be motivated enough to come out with the best findings and recommendations.

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APPENDIX A

CHRISTIAN SERVICE UNIVERSITY COLLEGE KUMASI

QUESTIONNAIRE

TOPIC: THE ROLE OF INTERNAL AUDIT IN THE FINANCIAL INSTITUTIONS.

The objective of this questionnaire is to obtain information about the internal audit elements in this institution. The research is an academic exercise, it will not be used in any other way and your responses will be treated confidentially. As it is an academic exercise, please give answers to the best of your knowledge.

SECTION A:

NON-AUDIT STAFF

Sex: Female [☐] Male [☐]

Age: Below 26yrs [☐] 26-30yrs [☐] 31yrs and above

How long have you worked in this institution?.....

1month-5yrs [☐] 6-10yrs [☐] above 10yrs [☐]

4. What is your position in this institution?.....

5. What do you think is the principal reason for the establishment of internal audit department in this institution?.....

.....

6. How does the activity of the internal audit conform to the policies of the institution?.....

.....

7a. Does the internal audit staff exhibit competence in fulfilling their responsibilities?

Yes [] No []

b. Give reason for your answer.....

.....

8a. what is the relationship between the internal audit staff and other staff in the institution?

Cordial [] Not Cordial [] Not sure []

b. Give reason for your answer.....

.....

9a. Do you see the internal audit staff as your colleagues?

Yes [] No []

b. Give reasons for your answer.....

.....

10a. what is the relationship between the internal audit staff and management?

Cordial [] fairly [] Not cordial [] Not sure []

b. Give reasons for your answer?.....

.....

11a. who appointed the internal auditor?.....

.....

b. Whom does the internal auditor report to?.....

.....

12. How often does management take the internal audit findings and recommendations into consideration?

Very often [] Sometimes [] Not often [] Not sure []

13. How many times does auditing takes place in a year?

Monthly ☐ Quarterly ☐ Half yearly ☐ Yearly ☐

14a. To what extent has the internal department contributed to the prevention of fraud in this institution?.....

.....

b. Mention specific instance where internal audit department detected and prevented fraud?.....

.....

15. How necessary is auditing to the institution?.....

.....

16. How often does the head office appraise the soundness and adequacy of the internal audit findings and recommendations?.....

.....

17. Who are your external auditors?.....

.....

18. Does the previous audit report conform to the policies and procedures of Bank of Ghana?.....

.....

19a. How many times have the external auditor query the report of the internal auditor?.....

.....

b. What did the external auditor specifically queried the internal auditor about?.....

.....

20. Give suggestions for improvement of the internal audit function in this institution

.....

APPENDIX B

INTERVIEW GUIDE

The objective of this interview is to obtain information to assess the internal audit elements in this institution. The research is an academic exercise, it would not be used in any other way, and your responses would be treated confidentially. As it is an academic exercise, please give answers to the of your knowledge.

1. How long have you worked in this institution?
2. What internal control measures do you have?
3. What do you think is the principal reason for the establishment of the internal audit department?
4. How many members are in the in the internal audit department?
5. Apart from the internal audit department, what other departments do you have?
6. Is the number of staff for the internal audit department adequate?
7. How often does staff in the audit department undergo training to upgrade their knowledge and skills?
8. What constrains fight against the effective discharge of your work?
9. Do you have the right access to all records of the institution?
10. As an internal auditor, what do you aim to achieve?
11. How does the internal auditor help in the development and implementation of new systems within the institution?
12. How often does the internal auditor appraise the soundness and adequacy of financial accounting and other operating controls?
13. What is your relationship with management?

14. Who appointed the internal auditor?
15. Who do your report to?
16. How often does management implement your recommendations?
17. To what extent does the internal audit department contribute to the prevention of fraud in this institution?
18. To what extent does the internal auditor contribute to the financial discipline?
19. Who are your external auditors?
20. a. How beneficial was your previous audit report to the stakeholders?

b. Does your audit report conform to policies and procedures of the Bank of Ghana?
21. Are the external auditors satisfied that the previous audit report was in conformity with The Auditing Standard Practice (A.S.P)?