

CHRISTIAN SERVICE UNIVERSITY COLLEGE

ENHANCING INTERNAL AUDIT TO PROMOTE EFFECTIVE AND EFFICIENT
FINANCIAL MANAGEMENT IN THE PUBLIC SECTOR

(A CASE STUDY OF SELECTED MINISTRIES, DEPARTMENTS AND AGENCIES
(MDAs) AND METROPOLITAN, MUNICIPAL DISTRICT ASSEMBLIES (MMDAs) IN
ASHANTI REGION OF GHANA)

ASUMING AKWASI APPIAH

FORKUO GLORIA KWARTEMAA

KANKAM KWASI KENNEDY

ODE DORIS

TETTEH HENRIETTA KORKOR

A DISSERTATION SUBMITTED TO THE DEPARTMENT OF BUSINESS STUDIES,
CHRISTIAN SERVICE UNIVERSITY COLLEGE, IN PARTIAL FULFILLMENT OF THE
REQUIREMENTS FOR THE AWARD OF A BACHELOR OF BUSINESS
ADMINISTRATION.

MAY 2013

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STATEMENT OF AUTHENTICITY

We have read the university regulations relating to plagiarism and certify that this report is all our own work and do not contain any unacknowledged work from any other source. We also declare that we have been under supervision for his report herein submitted.

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ABSTRACT

Internal auditing is a profession and activity involved in helping organizations achieve their stated objectives. It does this by using a systematic methodology for analyzing business processes, procedures and activities with the goal of highlighting organizational problems and recommending solutions.

The researchers have always wondered why there are internal audit departments in many public organizations but there seems to be instances of inefficient financial management and behaviours that are fraudulent. The research was therefore conducted to examine the concept of internal auditing from the professional standards perspective, to have an understanding of the roles of internal auditors and to improve the practice of internal auditing to promote efficient and effective financial management. The objectives of the study were to identify the importance of internal audit within the organization, identify the challenges facing internal auditors within an organisation and suggest ways of strengthening and making effective internal audit units function effectively and efficiently within public sector organizations. Professional Codes of Ethics and Behavior have become necessary because some auditors have been led to exercise undue care, skill and caution which lead to litigations.

The type of research used for the study was explanatory and the quantitative approach using fifty (50) questionnaires distributed to employees of the Regional Coordinating Council in Kumasi. Convenience sampling and observations were also used in the collection of data and information.

Findings from the research include lack of analytical audit procedure, conflict between the audit and accounts department, lack of value creation and addition, lack of relevant logistics, inadequate control over audits and performance and non existence of audit work schedule.

The researchers recommend that audit schedules should be prepared, registers should be provided for further monitoring of compliance by employees, employees/staff upgrading themselves through education and training; and incentives should also be provided as motivation for internal audit staff.

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Completing a project of this magnitude involves more than just the researchers. We are therefore indebted to the Almighty God for His strength and knowledge. We have also benefited from the help of many people in the evolution of our project. Family heads, colleagues and business contacts have provided hundreds of insightful comments, suggestions and contributions that have progressively enhanced this project.

Our final outmost thanks goes to our supervisor, Mr. Stephen B. Alewabah, for reading through this project and making constructive criticisms to help make this project an acceptable one.

DEDICATION

We dedicate this project to our families for their immeasurable love, prayers and support for us in making our education successful and also for their love and care in our lives.

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CHAPTER ONE

1.1 BACKGROUND

Board, council or management of MDAs and MMDAs have the responsibility to ensure that public assets entrusted in their care are protected and safeguarded against frauds, errors and other forms of irregularities. They have therefore put in place mechanisms, structures and framework which can prevent, deter and detect frauds, errors and irregularities before external auditors come in to finally audit the financial statements. In modern financial management practices, the establishment of audit committees and internal audit units or departments is recommended to all forms of organizations to assist management etc in protecting and safeguarding the assets of the organization.

Internal auditing is a profession and activity that involves helping organizations achieve their stated objectives. It does this by using a systematic methodology for analyzing business processes, procedures and activities with the goal of highlighting organizational problems and recommending solutions. Professional internal auditors are employed by organizations to perform the internal auditing activity just like training and development, staffing, planning and budgeting etc.

The scope of the internal auditing within an organization is broad and may involve areas such as the efficacy of operations, the reliability of financial reporting, deterring and investigating fraud, safeguarding assets and compliance with laws and regulations.

Internal auditing frequently involves measuring the entity's policies and procedures with standards and practice in relation to compliance. However, internal auditors are not responsible for the execution of the company's activities, they advise management and the Board of Directors or similar oversight bodies regarding how to execute their responsibilities. As a result of their broad scope of involvement, internal auditors may have a variety of higher educational and professional background.

1.2 PROBLEM STATEMENT

Recently, in many public corporations and tertiary institutions, audit committee and internal audit departments exist to take up the assignment of safeguarding assets. Within the Controller and Accountant General's Department, there is an audit and investigation division responsible for early detection and prevention of fraud, errors and irregularities. Yet, fraudulent behavior is still ongoing because "good governance of funds in the public sector and the role of the internal auditor" have not been effective as a result of the existence and power of financial controllers. Also, the office of the internal auditor is not highly regarded because of the motive that the internal auditor is like any other employee at the workplace.

1.3 RESEARCH OBJECTIVES

Generally, the study is to:

- Identify the importance of internal audit within the organization.
- To identify the challenges facing internal auditors within an organisation.
- Suggest ways of strengthening and making internal audit units function effectively and efficiently within public sector organizations.

1.4 RESEARCH QUESTIONS

- What role does internal auditing play in an organization?
- What are the challenges facing the internal audit of public sector organisations?
- How can the work of the internal auditor be enhanced to improve an effective and efficient management?

1.5. SIGNIFICANCE OF THE STUDY

The significance of the study are:

- The Regional Coordinating Councils and its affiliates can use the document to improve their internal audit unit.
- Students can use this research material in their internal audit studies.
- Audit firms can use their material to train its staff who want to upgrade their knowledge in internal auditing.
- Lecturers can also use this research as a reference material for students studying internal auditing.

1.6. LIMITATION(S) OF THE STUDY

The following constraints were encountered during the research:

- i. Even though a whole year (two semesters) was used for the study, the researchers encountered a lot of difficulties especially time constraints since they had to do their business plan and defend in the first semester. This led to a drop of the study so as to make way for the first semester's work with much focus on the business plan.
- ii. The researchers had financial constraints because the funding of the study had to be borne anyway by the researchers and a faster rate of progress of the research was sabotaged.
- iii. Also, some of the respondents were hesitant in giving out the needed information so it took the researchers a longer period than expected in collecting the questionnaires.

1.7 Organization of the Study

This dissertation has been organized into five chapters. Chapter one gives an introduction of the study. The chapter gives a brief background of internal auditing providing a definition as well as a brief explanation of the nature of internal auditing in the public sector. The subject further expresses the problem statement, research objectives, research questions, significance of the study, limitation(s) of the study as well as how the study is organized.

Chapter two contains a literature review of other works, articles, and reports related to the topic. It reviews literature of the Internal Audit Agency, Act the professional code of ethics, the pivotal role of the Internal Audit Agency, function of the Agency, reviews of Audit reports, effectiveness of internal audit on MDAs and MMDAs indicating the role of Internal Auditors in MMDAs on accountability in Ghana, Local Government organizational structure describing the main divisions, composition of the structure, functions of the Metropolitan, Municipal, District Assemblies(MMDAs) as well as the Assemblies and the Regional Coordinating Council(RCC). It also talks about the Public Financial Management(PFM) which elaborates more on Public Procurement Reforms, proposed activities and other on-going measures; the challenges of Internal Auditing in financial management of the public sector with its recommendation; Internal

Audit neglect and relevant legislation as well as consequences of apparent neglect of Internal Audit and conclusion .

Chapter three clearly states the methodology adopted for the conduct of this research. The chapter states the research design, the population used for the study, the sample and sampling technique, the data collection technique, research instrument and data analysis approach.

Chapter four presents data presentation and analysis, test of the hypothesis and discussion of the findings of the research.

Chapter five is a concluding chapter and contains a summary, conclusion, and recommendations based on the research.

CHAPTER TWO

LITERATURE REVIEW

2.1 INTRODUCTION

The creation of the Internal Audit Agency was predicated on the need for the Government to put in place a structure that could support the eventual transfer of budgetary authority and expenditure control to the MDAs and MMDAs. These initiatives are part of the government's efforts under the Public Financial Management Reform Programme (PUFMARP) which resulted in proposals for the establishment of a Central Internal Audit Agency to enhance the accountability, efficiency and transparency in the management of resources in the public sector.

In modern financial management practices, the establishment of Audit Committees and Internal Audit Departments is recommended to all organizations to assist the Board, management and others in the protection and safeguarding of the organization's assets. Like the private sector, MDAs and MMDAs in Ghana establish these kinds of Internal Audit Units and Audit Committees to help in early detection and prevention of fraud, errors and irregularities.

Effective internal auditing is a critical component of an organization's management administration and a foundation for safe and sound operations of organizations. Ineffective internal auditing results in ineffective implementation of good and effective programs and policies which sometimes results in fraud, errors, losses and irregularities.

2.2 INTERNAL AUDIT

The Institute of Internal Auditors (IIA 2007) has developed the globally accepted definition of internal auditing:

“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.”

Section 16 (1) of the Internal Audit Agency Act, 2003 (Act 658) states that:

“There shall be established in each MDAs and MMDAs, an internal audit unit which shall constitute a part of the MDAs and MMDAs”

Internal auditing is a profession and activity involved in helping organizations achieve their stated objectives by using a systematic methodology for analyzing business activities, processes and procedures with the goal of highlighting organizational problems and recommending solutions. Internal auditors who are professionals are employed by organizations to perform internal auditing activity.

The primary purpose of internal audits is to carry out audit and professional evaluation of the activities to ensure that the system of internal controls applicable to financial programmes, safeguarding of assets and project areas provide reasonable assurance to manage the following:

- Risks are adequately managed and financial resources used economically, effectively and efficiently.
- Financial, managerial and operating information reported internally and externally is accurate, reliable and timely.
- Facilitates the prevention and detection of fraud, abuse and waste.
- Financial activities are in compliance with laws, policies, plans, standards and procedures.
- Resources are adequately safeguarded, used judiciously and for the intended purpose.

2.3 INTERNATIONAL STANDARDS IN THE INTERNAL AUDIT CHARTER FOR THE PROFESSIONAL PRACTICE OF INTERNAL AUDITING (STANDARDS)

In every profession, there are bound to be bad nuts and their performance and behavior are likely to tarnish the image of the profession where the Accounting and Auditing professions are no exceptions. Auditors who perform statutory audits have duties and rights but the interest of shareholders and consumers of accounting information need to be protected. Company members

and directors also want nothing less than value for their money when they engage the services of an auditor or practicing firm to audit their accounts.

Auditors know that when they do good jobs, they will be appreciated and will continue to be in business, their images, the image of their profession and that of their clients will be enhanced. However, indiscipline has become an important issue in the profession which should not be so.

Discipline is required because bad workmanship arising from possible negligence, incompetence, inefficiency and misconduct may affect investors, debenture holders, potential investors, other parties interested in the financial statements, Client Company and the profession.

Also, the fact that the so-called Investigatory or Disciplinary Committees of Accounting Bodies of the profession have no powers conferred on them by any statute which could compel the bad nuts and non-professionals to give evidence before such committees.

Professional Codes of Ethics and Behavior have become necessary because some auditors have been led to exercise the due care, skill and caution which leads to litigations. As part of the measures to nurture discipline, it is required that in a statutory audit, the auditor should be a professional accountant recognized under one of the following professional bodies:

- a) Association of Chartered Accountants(ACCA)
- b) Chartered Institute of Management Accountants(CIMA)
- c) Institute of Chartered Accountants(ICA) England, Wales, Scotland and Ghana
- d) Institute of Professional Accountants(IPA)

The Recognized Professional Bodies (RPBs) in UK are required by Schedule II of UK Companies Act, 1989 to have adequate practice, rules and regulations which enforce professional codes of ethics and behavior of their members. As part of efforts in fulfilling this requirement, ACCA Rules of Professional Conduct for example states that members should carry out their professional with the due care, skill, diligence and expedition and with proper regard for technical and professional standards expected from them as members serving as a warning to those who do bad audits.

The requirements of the Audit Guidelines are that, practitioners are to plan their audits, draw audit programmes, design audit tests, check relevant books, vouch books and documents, observe annual stock-takings, use various techniques to verify assets and liabilities and check

account balances to certify their authenticity. They should carefully get the facts and figures, information and explanations which are reasonable and will enable them to use their professional judgments to draw conclusions.

The auditor is then expected by the professional ethics to be courteous, cautious, diligent, prudent, hardworking and meticulous and by doing so, will earn his or her income honestly and professionally.

The recommendations of the J.P. Greenside Committee which was set up in 1977 to advise RPBs on disciplinary issues were however viewed differently by different accountancy bodies. It was viewed by a section of the RPBs that the cost of setting up the tribunals to deal with indiscipline would be too high while another section felt that the recommendation did not go far enough. All these views were intended to prevent the UK government from introducing a statute-based system to deal with indiscipline in the practice. Similar steps could be adopted in Ghana to enhance discipline among professional members in practice and members will have no choice than to conduct them well and always strive to perform good and quality audits.

The distinguishing mark of the accounting profession is its acceptance of the responsibility to act towards the interest of the public. Therefore, the accountant's responsibility is not only to satisfy the needs of an individual client or employer.

The professional accountant shall comply with the under listed ethical principles:

2.3.1 Confidentiality

One of the ethics of the profession intended to ensure discipline among auditors is confidentiality. The basis of the auditor's confidentiality springs from the fact that throughout the audit, he will be familiar with highly confidential matters concerning the client. Every organization has its own secrets which the auditor may notice or come across in the course of the audit and to respect the confidentiality of information acquired as a result of professional and business relationships, the steps mentioned in section 20 of the Internal Audit Agency Act 2003(Act 658) must be followed:

- Internal auditors shall respect the value and ownership of information they receive and shall not disclose information without authority unless there is a legal or professional obligation to do so.

- Internal auditors shall be prudent in the use and protection of information acquired in the course of their duties.
- Internal auditors shall not use information for any personal gain or in any manner that would be contrary to this Act or detrimental to the legitimate and ethical objectives of the Agency, MDAs and MMDAs.

The following circumstances where professional accountants are or may be required to disclose confidential information are when such disclosure is appropriate.

- When for instance, the production of documents or other provisions of evidence in the course of legal proceedings demand disclosure to the appropriate public authorities relating to the infringement of the law.
- When the disclosure is authorized by the client or the auditee.
- When there is a professional duty or right to disclose, when not prohibited by law to comply with the quality review of a member or professional body and to protect the interest of the professional accountant in legal proceedings as well as to comply with technical standards and ethical requirements.

In deciding whether to disclose confidential information, the auditor must consider whether the interest of all parties including third parties whose interests may be affected could be harmed if the client or auditee consents to the disclosure of information by the professional accountant or auditor. The type of communication that is expected, to whom it is addressed and whether the parties to whom the communication is addressed are appropriate must also be considered.

The need to comply with the principles of confidentiality continues even after the end of the audit. When the auditor changes employment or acquires a new client, he (auditor) is entitled to use prior experience. The professional accountant shall not, however use or disclose any confidential information either acquired or received from auditing.

2.3.2 Integrity

The principle of integrity imposes an obligation on all professional accountants to be straightforward and honest in all professional and business relationships. Section 19 of the Act require that internal auditors to whom this Act applies shall:

- (a) perform their work with honesty and diligence;
- (b) not knowingly be a party to any illegal activities or engage in acts that discredit the work of internal auditing or the MDA or MMDA;
- (c) make disclosures required by law and the standards and procedures as established under section 3(1);
- (d) not participate in any activity or relationship that may impair or is likely to be taken to impair unbiased assessment, including an activity or a relationship that may be in conflict with the interests of the MDA or MMDA;
- (e) not accept anything or any favor that may impair or might be taken to affect their professional judgment; and
- (f) disclose all material facts known to them, the non-disclosure of which may distort any reporting activity.

2.3.3 Independence And Objectivity-1100

The internal audit activity must be independent, and internal auditors must be objective in performing their work. Another issue which stands out in the code of conduct and professional ethics and behavior in auditing is independence which is defined as the freedom from conditions that threaten the ability of the internal audit activity to carry out internal audit responsibilities in an unbiased manner. To achieve the degree of independence necessary to effectively carry out the responsibilities of the internal audit activity, the chief audit executive has direct and unrestricted access to senior management and the board. This can be achieved through a dual-reporting relationship. Threats to independence must be managed at the individual auditor,

engagement, functional, and organizational levels. He must be free from influence which may conflict with the professional ethics so as to do his work objectively and impartially.

Objectivity is an unbiased mental attitude that allows internal auditors to perform engagements in such a manner that they believe in their work product and that no quality compromises are made. Objectivity requires that internal auditors do not subordinate their judgment on audit matters to others. Threats to objectivity must be managed at the individual auditor, engagement, functional, and organizational levels.

1110. A1 – The internal audit activity must be free from interference in determining the scope of internal auditing, performing work, and communicating results.

2.3.4 Exhibition Of Professionalism And Competence

Internal auditors operating by virtue of the Internal Audit Agency Act (section 18),

(a) shall exhibit the highest level of professionalism in the gathering, evaluation and communication of information when auditing and shall act only in areas for which they have the necessary knowledge, skills, experience and competence;

(b) shall perform internal auditing in accordance with Generally Accepted Principles of Internal Auditing and the standard and guidelines of the Agency as established under section 3(1) and

(c) shall in the performance of their work make a balanced assessment of all issues of relevance to the work and should not be influenced by their personal interest or the interests of other persons.

Competent professional service requires the exercise of sound judgment in applying professional knowledge and skill in the performance of such service. Attainment of professional competence and maintenance of professional competence form the two phases of professional competence.

Maintaining of professional competence requires a continuing awareness and an understanding of relevant technical, professional and business developments. Continuing professional development enables a professional accountant to develop and maintain the capabilities to perform competently within the professional environment. Diligence encompasses the responsibility to act according to the requirements of an assignment based on careful, thorough

and on timely basis. Alongside this, the auditor must exercise a professional behavior by complying with the relevant laws and regulations and avoid actions that discredit the profession.

2.3.5 Due Professional Care–1220

Internal auditors must apply the care and skill expected of a reasonably prudent and competent internal auditor. Due professional care does not imply infallibility.

1220. A1 – Internal auditors must exercise due professional care by considering the:

- Extent of work needed to achieve the engagement’s objectives;
- Relative complexity, materiality, or significance of matters to which assurance procedures are applied;
- Adequacy and effectiveness of governance, risk management, and control processes;
- Probability of significant errors, fraud, or noncompliance; and
- Cost of assurance in relation to potential benefits.

2.4 THE PIVOTAL ROLE OF THE INTERNAL AUDIT AGENCY

In order for an internal audit function to have a higher profile and significance, there need to be an Internal Audit Agency that sets the appropriate tone at the top.

The objective of Internal Audit Agency as a central agency is to co-ordinate, facilitate, monitor and supervise internal audit activities within Ministries, Departments and Agencies and Metropolitan, Municipal and District Assemblies in order to secure quality assurance of internal audit within these institutions of State; to provide for the Board of the Internal Audit Agency and to provide for connected purposes.

According to the Internal Audit Agency Act 2003 (Act 658), each MDA and MMDA is to have its own internal audit department as opposed to the current situation where the function is largely formed by the Controller and Accountant-General’s Department’s staff. According to section 120 of the Local Government Act, 1993 (Act 462), MMDAs are to have internal audit units of their own.

The point must be made that several bodies established as statutory corporations have in their respective enactments, provision on the appointment of internal auditors. These auditors are to submit their reports to the Agency (clause 16).

2.5 FUNCTION OF THE AGENCY

(1) The Agency shall set standards and procedures for the conduct of Internal audit activities in the MDAs and MMDAs.

(2) The Agency shall ensure that

(a) financial, managerial and operating information reported internally and externally is accurate, reliable and timely;

(b) the financial activities of MDAs and MMDAs are in compliance with laws, policies, plans, standards and procedures;

(c) national resources are adequately safeguarded;

(d) national resources are used economically, effectively and efficiently;

(e) plans, goals and objectives of MDAs and MMDAs are achieved; and

(f) risks are adequately managed in the MDAs and MMDAs.

(3) Without limiting subsections (1) and (2), the Agency shall

(a) promote economy, efficiency and effectiveness in the administration of government programmes and operations;

(b) prepare plans to be approved by the Board for the development and maintenance of an efficient internal audit for the MDAs and MMDAs;

(c) facilitate the prevention and detection of fraud; and

(d) provide a means for keeping the MDAs and MMDAs fully and currently informed about problems and deficiencies related to the administration of their programmes and operations and the necessity for appropriate corrective action.

(4) The Agency shall monitor, undertake inspections and evaluate the internal auditing of the MDAs and MMDAs. (*Internal Audit Agency Act 2003*)

2.6 REVIEWS OF AUDIT REPORTS

The review of audit reports in 2009 came out with the issues listed below which keep on reoccurring in reports year after year of which no corrective measures have been taken on them:

- **Maintenance of Inventory Assets Register:-** Most of the Assemblies do not maintain asset register so moveable properties are taken away or stolen when a senior staff is on retirement or on transfer.
- **Misappropriation of Revenue by collectors:-** Each year some collectors refuse to account for the revenue collected due to the poor internal control system in place.
- **Non compliance with procurement procedures:-** Some purchases or works are done without recourse to tender procedures such as competitive bidding and sometimes direct labor is used to instead of awarding the project on account.
- **Nonpayment of income:-** 5 percent is deducted by the financial officer whenever the assembly pays money to contractors or suppliers however they at times deliberately refuse to deduct this at source and the assembly uses the money for other things depriving the government.

- **Recovery of advances:-** The assembly gives advance to staff in times of need but the staff refuses to pay these debts to the assembly and at times the debts are declared bad debts when the staff retire or goes on transfer which will definitely become a loss the assembly.
- **Retirement of accountable imprest:-** officers who are given accountable imprest:- Most officers who are given accountable imprest for special programmes misapply the funds and therefore find it difficult to get receipts to retire such imprest.
- **Suppressing the value books:-** Some revenue collectors refuse to submit some of their receipt books for auditing.

2.7 EFFECTIVENESS OF INTERNAL AUDIT ON MDAS AND MMDAS

MDAs and MMDAs to face sanctions for failing to implement Audit recommendations

As it came to light at the day's meeting with the Internal Audit Agency (IAA) and Institute of Internal Audit (IIA), representatives on Audit Report Implementation Committees (ARICs) in Accra.

Here still remains a huge Public Financial Management (PFM) capacity gap in these institutions. Majority of heads of managements of MDAs and MMDAs wanted to do the right thing and be in compliance with all legal and administrative requirements. However, the Director-General of the Internal Audit Agency, Mr. Numo disclosed that 76% of MDAs and 62% of MMDAs, which were ARIC members were not functioning well.

Although, section 30(1) of the Audit Service Act 2000 (Act 584) requires all institutions subject to auditing by Auditor-General, including MDAs and MMDAs to set up ARIC to ensure the implementation of the recommendations of audit reports.

Also, section 16(8) of the Internal Audit Agency, Act 2003 (Act 658) reiterates the need for all MDAs and MMDAs to comply with section 30(1) of Act 584 and establish ARIC; most of these institutions do not implement audit recommendations thereby contravening the law with impunity.

He admitted that the non-implementation of the various audit report of MDAs and MMDAs has led to losses to the state. “This is why the Internal Audit Agency is working hard to ensure that these institutions implement audit recommendations.”

They were expected to exhibit confidentiality, independence, attitude of mind, understanding the MDAs and MMDAs business, its products and services and controls and governance processes.

(Mashudu Ankiilu Kunateh, 2009)

Presentation on risk management, internal controls, governance processes, internal audit planning, execution and reporting, among other things, to help improve understanding of roles as internal auditors in the public sector of respective countries. This happened on the Second Ghana- Commonwealth Internal Audit Exchange Programme for internal auditors ended with a call on participants to sharpen their skills to meet accepted standards of prudent performance as well as to maintain a high quality control of internal system in the public services.

Kaifala Marah, the advisor of the Public Expenditure Management, Commonwealth Secretariat, charged participants to consider themselves as the flag bearers of transformation, change makers and drivers of reform. “Note that it has never taken a whole country to initiate a change. Your challenge is to go back, introduce a change and market it through the appropriate channels.” He charged the participants.

He further advised the participants to move systematically as they introduce internal control and machinery in their jurisdiction. “You should adopt policies that could be effectively be implemented to achieved desired results. Always review, monitor and evaluate your systems and processes by asking questions and by assessing yourselves”. He added.

Mr. Patrick Numo, the Director-General of the Internal Audit Agency reiterated internal audit practices as one of the indispensable elements of good corporate governance such as providing value-added assurance and advisory services to management, audit committees and boards of organizations. He therefore charged participants to rise up to the challenge and to use their training and experience in organizational risk management, control and governance processes in

order to provide the much needed assurance and advisory services that will enable their organizations live up to the demands of accountability and performance.

The Internal Audit Agency in collaboration with the Commonwealth Secretariat held its Second Internal Audit Exchange Programme (IAEP) in Accra purposely for public sector auditors in the Commonwealth member countries. The aim of the programme was to enable participants to gain hands-on experience in various aspects of internal practice in the public sector using the international best practice and the public sector of Ghana as a case study. The Chairman of the Public Service Commission, S.N. Wood, asked the internal auditors not to see themselves as minor functionaries within the machinery of the government rather as key stakeholders in the public service.

The internal auditors would have to strengthen the system for improved service delivery to ensure that the government achieves its goal of providing quality goods and services in the most cost effective, accountable and transparent way. This, he noted, would further help the public service to earn the respect of the populace and engender trust in the government's ability to deliver its promises so that democracy would be kept alive(*Odoi Larbi,2008*).

Internal auditors of the Metropolitan, Municipal and District Assemblies (MMDAs) in Kumasi have been advised to resist any form of enticement or pressures from chief executives to doctor audit reports. Concerns raised by some internal auditors regarding frustrations they face in the hands of some DCEs who sometimes employ subtle and overt means in an attempt to influence them to doctor audit reports. The issues came up at the maiden Public Agenda-GTZ workshop on Transparency and Accountability in the Development Activities of the MMDAs which was held in Kumasi on 16th September 2008.

The head of the Audit Department, Ministry of Local Government and Rural Development, Alhaji Ibrahim Dey Abubakari urged.

“No DCE has the authority to order an internal auditor to change audit reports. Any time a DCE asks you to alter any audit report, don't do it; if he or she persists, maintain your grounds and

write a report stating clearly your points of disagreement so that whoever is responsible for receiving the report will know where you differed with the DCE”.

He also urged internal auditors not to be glued to their chairs and concentrate on pre-auditing but should be on the field inspecting projects to ascertain their veracity or otherwise. By so doing, they will facilitate the prevention of and detection of fraud and in the same vein not be trapped into deals (*Public Agenda September 2008*).

2.7.1 The Role Of Internal Auditors In MMDAs On Accountability In Ghana

The Internal Audit of an MMDA is the most decentralized unit and internal auditors are part of it. The role of the internal auditor in helping the public services to evaluate and shape service delivery, and ensure that public sector programmes and systems are adequate in achieving organizational and national objectives thus becomes very significant.

Internal auditors have a key function to perform in relation to setting achievable performance targets, verification of transactions and the provision of management assurance at the planning and implementation stages of programmes. Public sector institutions must use existing laws and procedures to formulate strategies and enhance public sector performance of which the internal auditor is part of the strategy formulation. By so doing, they will facilitate the prevention, deterring and detection of fraud.

The internal auditor must be involved in redefining organizational missions, objectives and targets. The internal auditor must be involved in the reconsideration of existing staff assessment or appraisal methods as well as in the review of operational processes. In an effort to fulfill its mission and objectives and, thereby, contribute effectively to the efficiency of the public sector, the Internal Audit Agency has submitted proposals and changes to the internal audit function in MDAs and MMDAs.

Internal auditors of the MMDAs are to submit audit reports to the Internal Audit Service with possible recentralizing effects which defeats the very essence of decentralization. The head of the Internal Audit Unit shall at intervals of three months, prepare a report on the internal audit work carried out by his or her outfit within that three months immediately proceeding to the

preparation of the report and then submit it to the Presiding Member of Parliament and not the Ministry of Local Government.

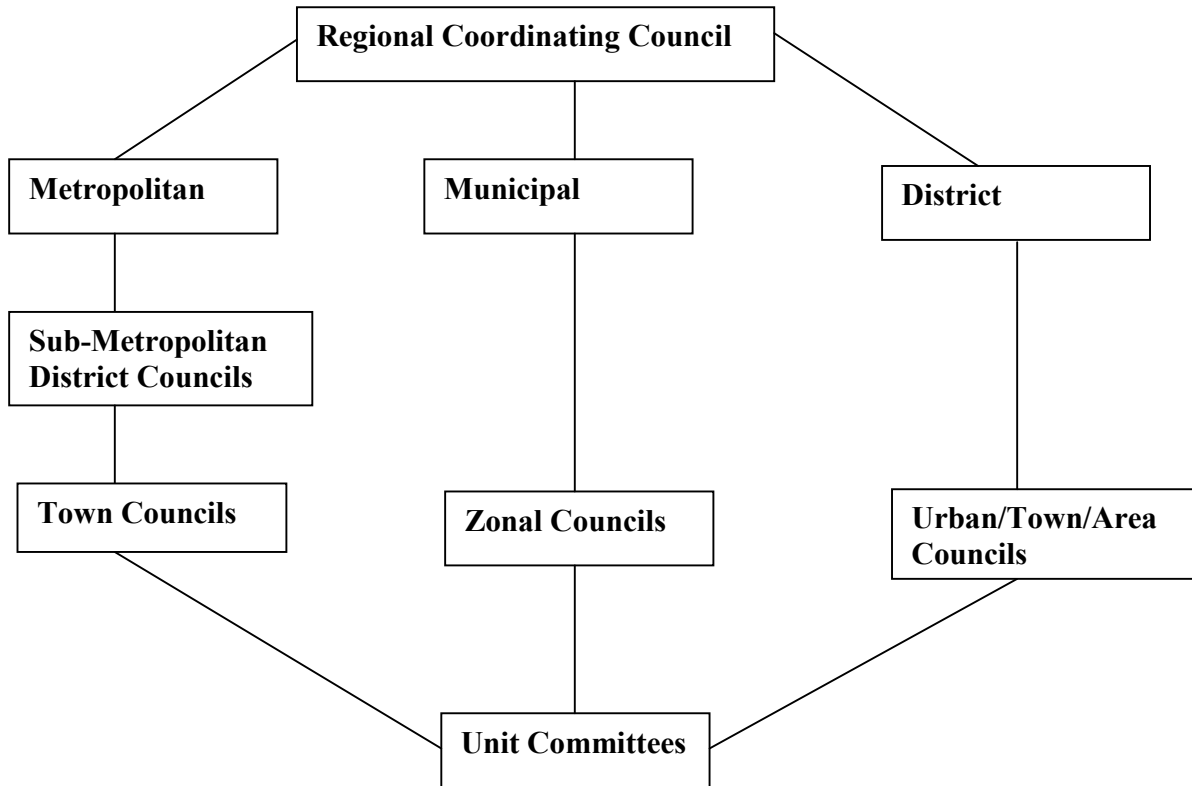
2.8 LOCAL GOVERNMENT ORGANIZATIONAL STRUCTURE

On July 1, 1987, the PNDC launched a three-tier system of local government. The principal innovations of the new system included creating 110 administrative districts to replace the sixty-five districts that had existed before and changing the name District Council to District Assembly. The District Assembly was to be the highest political and administrative authority in each district, with deliberative, executive, and legislative powers; it was responsible for creation of the two lower-level tiers, town or area councils and unit committees, within its jurisdiction. In 2004, the government further reviewed the number of assemblies and created a further 28 to enhance decentralization resulting in 138 assemblies.

2.8.1 Main Divisions

The assemblies are the main units of the Local Government. Metropolitan, Municipal and Districts are the three types. The Metropolitan Assemblies cover the urban centers with population over 250,000. Municipal Assemblies are single-town councils with population of over 95,000. The District Assemblies comprises over 75,000 population and of a wider geographical area combining rural areas and small towns. There are 6 Metropolitan Assemblies, 40 Municipal Assemblies and 124 District Assemblies. The Metropolitan structure is four-tiered while the Municipal and District Assemblies have a three tiered system depicted in the lower tiers are called sub-structures. The town area/zonal councils comprise elected Assembly members, representatives of unit committees and people appointed by the government. Similarly, the unit committees, the lowest level of the structure, have both appointed and elected members. There are around 16,000 unit committees countrywide. Though a concerted effort was made to hold elections in 2002, not enough people availed themselves to stand for election so some unit committees ended up not having a full complement of elected members. Sub-districts do not have any legislative or rating powers but function on powers delegated by the district assemblies.

Figure1. Structure of the new local government in Ghana



The recent local government system is made up of a Regional Coordinating Council (RCC) and a four tier Metropolitan and three tier Municipal/District Assembly structure.

2.8.2 Composition Of The Structure

The RCC consists of the Regional Minister and his deputy or deputies, the Presiding Member and the District Chief Executive from each district in the Region, two chiefs from the Regional House of chiefs and the Regional Heads of the decentralized ministries in the region as members without the right to vote.

The Regional Minister shall be the Chairman of the Regional Co-coordinating Council. Subject to this Chapter, the functions of a Regional Co-coordinating Council shall be as prescribed by Act of Parliament.²⁵⁶

The District Assembly consists of the district chief executive, two-thirds of the members directly elected by universal adult suffrage, the members of parliament (MPs) representing constituencies within the district and not less than 30% of the members appointed by the president in consultation with chiefs and interest groups in the district. The district chief executive is nominated by the president, approved by two-thirds majority of all the members of the Assembly present through voting and appointed by the president. The assembly has a presiding member who is elected by at least two-thirds majority of all the members of the Assembly. The sub-district structures include:

- a. **The Sub-Metropolitan DCs** which consists of not less than 25 and not more than 30 members, made up of all elected members of the assembly in that sub-metropolitan district and such other persons resident in the sub-metropolitan district appointed by the president.
- b. **The Urban Council** consists of not less than 25 and not more than 30 members, made up of not more than 8 persons elected among the members of the relevant DA, not more than 12 representatives from the unit committees in the area of authority of the urban council and not more than 10 persons ordinarily resident in the urban area.
- c. **The Zonal Council** consists of not less than 15 and not more than 20 members, made up of not more than 5 persons elected from among the members of the relevant municipal assembly, not more than 10 representatives from the unit committees and not more than 5 persons ordinarily resident in the area or town.
- d. **The Unit Committee** consists of not more than 15 persons, made up of 10 elected persons ordinarily resident in the unit and not more than 5 other persons resident in the unit and nominated by the District Chief Executive(DCE), acting on behalf of the president.

Elections to all local government bodies are on a non-partisan basis; the elections are state sponsored and conducted by the electoral commission.

2.8.3 Functions Of The Metropolitan, Municipal And District Assemblies

Metropolitan, Municipal And District Assembly is:

- i. Assigned with deliberative, legislative as well as executive functions.
- ii. Constituted as the planning authority for the district.
- iii. Created as the pivot of administrative and developmental decision making in the district and is the basic unit of government administration.
- iv. Established as a monolithic structure to which is assigned the responsibility of the totality of government to bring about integration of political, administrative and development support needed to achieve a more equitable allocation of power, wealth and geographically dispersed development in Ghana.

2.8.4 Functions Of The Assemblies

Section 10(3) of Act 462 lists the functions of the assemblies as follows:

- i. Be responsible for the development, improvement and management of human settlements and the environment in the district.
- ii. Be responsible for the overall development of the district and shall ensure preparation and submission through the Regional Coordinating Council for approval of the development plan to the commission and budget to the Minister of Finance for the district.
- iii. Ensure ready access to the courts and public tribunals in the district for the promotion of justice.
- iv. Formulate and execute plans, programmes and strategies for the effective mobilization of the resources necessary for the overall development of the district.

- v. In cooperation with appropriate national and local security agencies, be responsible for the maintenance of security and public safety in the district.
- vi. Initiate programmes for the development of basic infrastructure and provide municipal works and services in the district.
- vii. Initiate, sponsor or carry out such studies as may be necessary for the discharge of any of the functions conferred by this law or any other enactment, perform such other functions as may be provided under any other enactment.
- viii. Promote and support productive activity and social development in the district and remove any obstacles to initiative and development.

2.8.5 Functions Of The Regional Coordinating Council (RCCs)

RCCs are established for each of the 10 regions in Ghana with an administrative and coordinating rather than a political and policy making body. Its functions are to:

- i. Monitor, coordinate and evaluate the performance of the DAs in the region.
- ii. Monitor the use of all monies allocated to the DAs by any agency of the central government.
- iii. Perform such other functions as may be assigned to it by or under any enactment.
- iv. Review and coordinate public services generally in the region.

2.9 PUBLIC FINANCIAL MANAGEMENT

An internal audit function is an essential part of any public expenditure management system and should ensure that public spending is within budgetary provisions; disbursements comply with specified procedures, provides for the timely reconciliation of accounts and effective systems for managing and accounting for physical and financial assets (Commonwealth Secretariat, 2005)

Audit function has also been viewed as an integral part of government financial management and used as an instrument for improving the performance of the government sector.

Public financial management (PFM) is the fine art of budgeting, spending, and managing public monies that has seen an influx of innovations and reforms over the last two decades. It includes the activities that relate financial resources available to government to result in the allocation of funds, accounting and reporting, cash flow management, debt management, internal controls, procurement and financial statements. Restructuring this range of activities is an integral part of the efforts of government to move Ghana away from poverty and to promote economic prosperity.

Public Financial Management Performance Report (PFM-PR) is aimed at providing a value-central baseline assessment of Ghana's PFM system in order to measure future progress in forming its budget preparation, execution and oversight systems. The government is committed to improving its fiscal management in order to achieve its national goal of becoming a middle income country over the medium term. As such, the government wants public resources to be used as efficiently and effectively as possible in order to enable more resources to be directed towards boosting of Ghana's growth potential.

Ghana's Public Financial Management (PFM) system is based on a solid legal and regulatory framework which sets out appropriate budget and accountability structures. These include:

- i. Responsibility and accountability for public funds delegated to individuals through the system
- ii. Appropriate oversight by the legislature
- iii. Clear statement of the powers and duties for the Ministry of Finance and Economic Planning (MoFEP), the Controller and Accountant-General's Department (CAGD) and the Auditor-General; and
- iv. Clear and well documented roles and responsibilities for all stakeholders.

The legal framework for PFM is underpinned by an established set of expenditure control procedures covering the wage-bill, non-salary items and procurement.

2.9.1 Public Procurement Reforms

Public procurement accounts for 50-70 percent of import and about 80 percent of government expenditure therefore any improvement in the public procurement system will have a direct and beneficial effect on the economy. To supplement the financial administration laws and regulations, Government embarked on a public procurement reform as an integral part of the Public Financial Management Reform Programme (PUFMARP). The new legal framework is to ensure that public procurement is conducted with due attention to the economy, efficiency, effectiveness and value of money. The proposed law will apply to all public and private entities that use public resources for their procurement.

The purpose of the reform is:

- To eliminate the various shortcomings in the public procurement process by providing a comprehensive procurement law and standard tender documents supported by relevant institutional and administrative structures and an oversight body.
- To establish a national procurement system to guide the use of state funds for procurement of goods and services as well as disposal of stores and equipment.

Public Procurement Board shall be established under the law to oversee the management of public procurement and to create the interface between the private and public sectors of the economy.

2.9.2 Proposed Activities

Every important component of public financial management reform programme has lagged behind, including:

- i. Aid and Debt management
- ii. Audit Reform
- iii. Budget Formulation
- iv. Cash Management Reform and overall Treasury Management
- v. Procurement Procedures
- vi. Revenue Agencies Reform-CEPS, IRS and VAT

2.9.3 Other On-Going Measures

- i. Chart of Accounts to provide common classification for budgeting and accounting
- ii. Development of automated Budget and Public Expenditure Management System (BPEMS).
- iii. Medium-Term Expenditure Framework (MTEF) budgeting system to move from line items to activity-based budgeting.
- iv. New legislation on procurement awaiting Cabinet and Parliamentary approval
- v. Revisions of Financial Administration Decree(FAD) and Regulations (FAR) (1979) have been completed and awaiting for Cabinet and Parliamentary approval
- vi. The public sector

2.10 THE CHALLENGES OF INTERNAL AUDITING IN FINANCIAL MANAGEMENT OF THE PUBLIC SECTOR

This is an era where we seem to be missing so many vital targets in the public life trends which include the large fiscal and current account deficits, thus, with liabilities that suggest that critical average or gearing ratios have been thrown to the wind. There are about 900 Internal Audit Officers working in the Internal Audit Departments in 268 MDAs and MMDAs.

With the increasing demand of Government to improve the quality of services provided while cutting costs, public servants are under the obligation to be more accountable, customer-focused and responsive to stakeholders' values. This will enhance the services provided to tax payers-who pay for public services including pay pockets.

Effective financial management and audit practice in the public sector could have saved us the excitement and anxiety about some of the conditions under which we now have to secure loans, grants from donors and international financial institutions.

Performance management is a tool for assessing effectiveness, economy and accountability of public sector programmes. Another important requirement of a successful implementation of performance management is that organizational behavior and culture must change, work ethics observed and the changes managed. The behavior and attitudes of individuals and groups placed at the helm of affairs of governance must change and public servants need to be reminded that

performance is not just about output, but also about timeliness, quality and cost effectiveness. To achieve this goal, heads of public institutions are required to sign performance agreements with their respective institutions.

Parent ministers and institutions such as the State Enterprises Commission (SEC) to eliminate the practice of ‘softening the grounds’ through setting performance targets that are easy to measure and accomplish.

And in all these, accountants and internal auditors have the responsibility to discourage the management of public institutions from negative practices in the utilization of scarce public sector resources. Also, they must play a critical role in setting achievable performance targets, verifying transactions and providing management assurance at the planning and implementation stages.

Too often, performance in the public sector is measured by annual reports including audited financial statements and routine management and operations reports which also include staff appraisals from departments to parent ministries. Even where these are available, they are not sufficient for the type of standards that a comprehensive performance management system requires.

Successful implementation of performance management requires individual and organizational behavioral and cultural change. Work ethics need to be observed and changes must be managed.

2.10.1 Recommendations

We must constantly redefine organizational visions, objectives and targets; reconsider existing staff appraisal methods and renew operational processes to achieve a higher public service standard.

Performance management should also include specific tasks, schedules, staff guidelines and job descriptions.

2.11 INTERNAL AUDIT NEGLECT AND RELEVANT LEGISLATION

The only law that makes specific provisions for the function of the internal audit is the Financial Decree 1979 S.M.C.D 221. Section 48(3) states: “The Auditor-General may assign any member of the Audit Service to act as internal auditor for anybody or organization for the audit of the accounts of which the Auditor-General is responsible. Relevant legislation and what the legislation says about internal audit are noted below:

Constitution Of The Republic Of Ghana, 1992:- Deals with finance. No specific mention is made of internal audit. But specific mention is made of Statistical Service, the Auditor-General and the Audit Service.

Financial Administration Bill 2002: Section 45(1); Section 45(2):- provides for internal audit in accordance with audit service Act 2000 (Act 584). Provides for internal audit according to the currently non-existence Central International Agency Law.

Audit Service Act 2000 (Act 584) :- No specific mention is made of internal audit. Section 30 on Audit Implementation Committee provides a semblance of Audit Committee.

Audit Service Decree 1972, N.R.C.D. 49 Section 8(3) :- states: “the Auditor-General may assign any member of the Audit Service to act as internal auditor for anybody or organization for the audit of the accounts of which the Auditor-General is responsible.”

Financial Administration Decree, 1979 S.M.C.D. 221 :- “No specific mention is made of internal audit.

2.11.1 Consequences Of Apparent Neglect Of Internal Audit

As indicated above by existing law, internal audit should be within the domain of the Auditor-General who is also the external auditor. This is inconsistent with accounting and auditing principles and practice.

A major scandal was detected in the Ghana Education Service in the late 1980's. It was found out that, combining the internal and external audit functions under the Auditor-General has

compromised the effectiveness and integrity of the Auditor-General staff. The external and internal colleagues had colluded to cause a huge financial loss to the state.

Consequently, in 1988, the internal audit function was transferred to the Controller and Accountant- General's Department through an administrative arrangement. To date, the administrative arrangement does not have any legal backing. The administrative arrangement has been a source of confusion and bickering.

Unresolved issues include:

- Questionable mandate
- Lack of control over ride
- Duplication of functions
- Non-existence or non-performance

2.11.2 Conclusion

It is recognized that the neglect or absence of an effectively functioning internal audit organization in Ghana creates a vacuum in the country's governance and financial management reform efforts and initiatives. We also recognized that without a model or framework, it is difficult to chart the prognosis of the remedy being administered.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 INTRODUCTION

This chapter presents a detailed and systematic process that the researchers adopted in order to achieve the objectives of the study. The study therefore evaluates the influence of internal auditors on the financial management of MDAs and MMDAs. However, the validity of every research is dependent on the methodology adopted for the study. The methodology for a research must be scientific, thus, the process must be systematic, unbiased and rigorous. The type of research conducted, population, sampling technique and procedure used for the collection of data are captured and not to forget of the research design and methods used in analyzing and presenting data.

3.2 RESEARCH DESIGN

The type of research used for the study was explanatory(qualitative) and the quantitative approach was also adopted. These were used because there is already existing information which made it easier to analyze and make critical evaluation on the topic for the research.

3.3 POPULATION

Population means all the people, organizations, or elements that fall within the actual coverage of the research. The population used for the purpose of the study constitutes fifty (50) employees of the Regional Coordinating Council (RCC) which is made up of auditing and accounting departments among others. However, the target population was centered on Ashanti Region, Kumasi to be precise, as the focal point because that is the place where the researchers can get easy access to it on time and accurate information could be sought.

3.4 SAMPLE AND SAMPLING TECHNIQUE

The sample size chosen for the study is thirty (30) out of the population size of fifty (50). The purposive and decisive techniques were adopted for this research so that the selected population could get an equal chance of being selected so far as the study is concerned.

3.5 DATA COLLECTION TECHNIQUES

3.5.1 Primary Data

Primary data are the first occurrence of a piece of work. They are sometimes referred to as grey literature as they are sometimes difficult to trace and least accessible. The primary source of instrument used to elicit responses from the selected population under study was self-administered questionnaires. These included close ended questionnaires which were designed in such a way that it was easy to understand.

3.5.2 Secondary Data

Secondary data are the subsequent publication of primary data and are more easily available in the public domain. They are original work i.e. primary data that are reproduced in a different format. This kind of data is gathered before primary data because the researchers would want to know what is already known about a subject matter before going into current investigation to find out whether some questions of the researchers have already be answered. The study used secondary data for the analysis and in the estimation of the empirical model. Secondary data were obtained from the data files of the Internal Audit Agency and archives. Other information and data were obtained through documented works and publications (academic journals, books, internet search engines etc) relevant to the topic for discussion.

3.6 RESEARCH INSTRUMENT

The main research instrument used for the collection of data was questionnaires. The questionnaires were administered to solicit for information from the target population. Close ended questionnaires were designed for the research because the researchers intended to limit respondents to alternative questions provided by ticking the appropriate answer for each case.

3.7 DATA ANALYSIS

The data analysis discusses the research findings and it includes the analyses of various responses from administering the research questions on the target sample group. In analyzing the data obtained, the researchers made use of Statistical Package For Social Scientists (SPSS) for the analysis of data. Chi-square and frequency tables were used to give a tabular impression about the data collected and analyzed to see the relevance of internal audits in MDAs and MMDAs by administering questionnaires to fifty (50) employees using the Regional Coordinating Council as a case study.

CHAPTER FOUR
PRESENTATION OF FINDINGS AND DISCUSSIONS

4.1. INTRODUCTION

The purpose of the research is to enhance internal audit to promote effective and efficient financial management in the Ministries Department and Agencies (MDAs) and the Metropolitan Municipal District Assemblies (MMDAs). This data was analyzed from the fifty(50) questionnaires distributed to the Audit and Accounting Departments as well as observations made during our visit to the Regional Coordinating Council(RCC). Out of the fifty (50) questionnaires thirty (30) were retrieved.

4.2. DATA PRESENTATION AND ANALYSIS

Table 1: Internal Audit Department

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Yes	29	96.7	96.7	96.7
No	1	3.3	3.3	100.0
Total	30	100.0	100.0	

Source: Field Study, 2013

Among the thirty (30) respondents, twenty-nine (29) of them representing 96.7 % agreed to the fact that their corporate body has an internal audit department whiles one (1) representing 3.3% said there was no internal audit department in the organization.

Table 2: Effectiveness Of The Internal Audit Department

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Yes	23	76.7	76.7	76.7
No	6	20.0	20.0	96.7
don't Know	1	3.3	3.3	100.0
Total	30	100.0	100.0	

Source: Field Study, 2013

Twenty-three (23) respondents representing 76.6% believed that the department is very effective in their operations as compared to six (6) representing 20% who said they do not see it as very effective due to the following:

- Ineffective control and conformance to rules and regulations
- High illiteracy rate of employees in terms of level of education
- Unawareness code of ethics and due professional care.

One (1) respondent representing 3.3% did not even know whether the internal audit department was effective or not.

Table 3: Mission And Role Of The Internal Audit

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	yes	24	80.0	82.8	82.8
	No	2	6.7	6.9	89.7
	don't know	3	10.0	10.3	100.0
	Total	29	96.7	100.0	
Missing	System	1	3.3		
Total		30	100.0		

Source: Field Study, 2013

82.8 %, thus, twenty-four (24) of the sample population believed that the mission and the role of internal audit are well defined, three (3) respondents, thus, 10.3% said they did not know and two (2) respondents representing 6.9% did not believe that the mission and roles were not well defined.

Table 4: Promotion Of Objectivity, Consistency And Business Understanding

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	22	73.3	73.3	73.3
	No	7	23.3	23.3	96.7
	don't know	1	3.3	3.3	100.0
Total		30	100.0	100.0	

Source: Field Study, 2013

In all, 73.3%, thus, twenty-two (22) respondents agreed to the notion that their current structure of internal audit promotes objectivity, consistency and business understanding while seven (7) representing 23.3% disagreed. 3.3% which represents one respondent had no idea as to whether objectivity, consistency and business understanding was promoted by the current structure of the internal audit or not.

Table 5: Protection and safeguarding of assets

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	23	76.7	85.2	85.2
	No	2	6.7	7.4	92.6
	don't know	2	6.7	7.4	100.0
	Total	27	90.0	100.0	
Missing	System	3	10.0		
Total		30	100.0		

Source: Field Study, 2013

Twenty-three (23) respondents representing 85.2% agreed to the fact that audit activity involved protection and safeguarding of assets; two (2) respondents representing 7.4% disagreed with that notion; two (2) others (7.4%) also said they did not know.

Table 6: Exercising Of Professional Codes Of Ethics

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	19	63.3	73.1	73.1
	No	6	20.0	23.1	96.2
	don't know	1	3.3	3.8	100.0
	Total	26	86.7	100.0	
Missing	System	4	13.3		
Total		30	100.0		

Source: Field Study, 2013

Nineteen (19) which is 73.1% of the respondents said that they exercise these codes of ethics; six (6) representing 23.1% of the respondents disagreed to it because they did not even have

knowledge in those areas and thus didn't know how to exercise them; one (1) who represents 3.8% confessed they did not know about them.

Table 7: Qualification Of Audit Staff

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	9	30.0	31.0	31.0
	No	15	50.0	51.7	82.8
	don't know	5	16.7	17.2	100.0
	Total	29	96.7	100.0	
Missing	System	1	3.3		
Total		30	100.0		

Source: Field Study, 2013

Fifteen (15) respondents who represented a majority of 51.7% said it didn't matter whether the auditor belonged to a professional body or not but nine (9) respondents totaling 31% agreed that the auditor should be a professional accountant belonging to a recognized institution including ACCA, ICA UK, CIMA and IPA. Also, five (5) of the respondents representing 17.2% said they did not know whether the auditor should belong to a professional body or be an ordinary employee.

Table 8: Measurement of performance and compliance with laws and regulations

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	28	93.3	96.6	96.6
	No	1	3.3	3.4	100.0
	Total	29	96.7	100.0	
Missing	System	1	3.3		
Total		30	100.0		

Source: Field Study, 2013

In all, 28 respondents representing a majority of 96.6% the audit functions in the organization were performed or carried out in compliance with the law and regulations; one (1) respondent of 3.4% did not agree because he felt that the employees reported to work at their own convenience, leave and resume from break as they please.

Table 9: Due professional care, skill and caution during judgments and audit report writing

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid yes	26	86.7	86.7	86.7
no	1	3.3	3.3	90.0
don't know	3	10.0	10.0	100.0
Total	30	100.0	100.0	

Source: Field Study, 2013

Twenty-six (26) of the respondents representing 86.7% said due professional care, skill and caution were exercised by them during judgment and audit report writing while three (3) other respondents of 10% had no idea. One (1) respondent representing 3.3% disagreed with the majority.

Table 10: Relevant Logistics

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Yes	8	26.7	27.6	27.6
No	19	63.3	65.5	93.1
don't know	2	6.7	6.9	100.0
Total	29	96.7	100.0	
Missing System	1	3.3		
Total	30	100.0		

Source: Field Study, 2013

65.5% from nineteen (19) respondents said there were not enough logistics to help them carry on with their work at a faster rate while eight (8) respondents representing 27.6% said there are enough logistics. Two (2) from 6.9% of the respondents said they had no idea of whatever goes on.

Table 11: Relevant Skills And Experience For Risk Identification

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid yes	20	66.7	66.7	66.7
No	7	23.3	23.3	90.0
don't know	3	10.0	10.0	100.0
Total	30	100.0	100.0	

Source: Field Study, 2013

Twenty (20) from 66.7% of the respondents said most of the employees in the organization have the relevant skills and experience for identifying potential risks while seven (7) out of 23.3% said the staff had no skills and experience due to inadequate education. Three (3) of the respondents representing 10% seemed to have no knowledge about the skills and experience of the staff in the accounts and audit department.

Table 12: Sufficient Number Of Staff

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Yes	19	63.3	63.3	63.3
No	11	36.7	36.7	100.0
Total	30	100.0	100.0	

Source: Field Study, 2013

Nineteen (19) respondents representing 63.3% attested to the fact that the audit department 'was well staffed while eleven (11) from 36.7% said it rather lacked sufficient staff.

Table 13: History Of Fraud And Mismanagement In This Organization

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid yes	6	20.0	20.0	20.0
No	13	43.3	43.3	63.3
don't know	11	36.7	36.7	100.0
Total	30	100.0	100.0	

Source: Field Study, 2013

Thirteen (13) respondents from 43.3% said they have no knowledge or record of fraud and mismanagement in the organization while eleven (11) of the respondents from 36.7% said there had no idea. Six (6) representing 20% said there has been a record of such things in the organization.

Table 14: Conflict Between The Audit Department And The Accounts Department

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	13	43.3	43.3	43.3
	No	15	50.0	50.0	93.3
	don't know	2	6.7	6.7	100.0
Total		30	100.0	100.0	

Source: Field Study, 2013

Fifteen (15) respondents representing a majority of 50% said there are no conflicts between the accounts and the audit department but thirteen (13) from 43% argue that there has been series of conflicts between the two departments. Two (2) other respondents representing 6.7% said they don't know if anything of that sort happens or happened or not.

4.3 TESTING THE HYPOTHESIS

H1: ‘Good governance of funds in the public sector and the role of the internal auditor’ have not been effective as a result of the existence and power of financial controllers.

Table 15: Effectiveness Of The Internal Audit Department vs. Relevant Logistics

			Relevant Logistics			Total
			Yes	No	don't know	
Effectiveness Of The Internal Audit Department	Yes	Count	8	13	1	22
		Expected Count	6.1	14.4	1.5	22.0
		% of Total	27.6%	44.8%	3.4%	75.9%
	No	Count	0	5	1	6
		Expected Count	1.7	3.9	.4	6.0
		% of Total	.0%	17.2%	3.4%	20.7%
	don't Know	Count	0	1	0	1
		Expected Count	.3	.7	.1	1.0
		% of Total	.0%	3.4%	.0%	3.4%
Total	Count	8	19	2	29	
	Expected Count	8.0	19.0	2.0	29.0	
	% of Total	27.6%	65.5%	6.9%	100.0%	

Source: Field Study, 2013

Good governance places emphasis on the principles and tenets of transparency and accountability in the exercise of political, economic and administrative authority for ensuring peace, stability and national cohesion. A majority of the staff representing thirteen (13) out of 44.8% said the lack of relevant logistics has led to the ineffectiveness of the internal audit department while eight (8) out of 27.6% still defended the notion that there are relevant logistics to promote that effectiveness they claim to have in the audit department. One (1) respondent representing 3.4% who said the internal audit department was effective didn't have any idea about whether there were relevant logistics or not.

H2: The office of the internal auditor is not highly regarded because of the motive that the internal auditor is like any other employee at the work place.

Table 16: Internal Audit Department vs. Qualification Of Audit Staff

			Qualification Of Audit Staff			Total
			yes	No	don't know	
Internal Audit Department	Yes	Count	9	14	5	28
		Expected Count	8.7	14.5	4.8	28.0
		% of Total	31.0%	48.3%	17.2%	96.6%
	No	Count	0	1	0	1
		Expected Count	.3	.5	.2	1.0
		% of Total	.0%	3.4%	.0%	3.4%
Total	Count	9	15	5	29	
	Expected Count	9.0	15.0	5.0	29.0	
	% of Total	31.0%	51.7%	17.2%	100.0%	

Source: Field Study, 2013

In testing the hypothesis it was revealed that, internal auditors are not highly regarded because of the motive that the internal auditor is like any other employee at the work place. This was proven to the fact that 48.3% representing fourteen (14) respondents said there is an internal audit department but didn't see the necessity of internal auditors being part of recognized bodies while nine (9) out of 31.0% saw the need for internal auditors being professional. 17.2% of five (5) respondents had no idea whether the internal auditors should be qualified or not.

4.4 DISCUSSION OF RESEARCH FINDINGS

The findings from the questionnaire administered were related to the objectives of the study.

1. Among the 30 respondents 96.7 % agreed to the fact that their corporate body has an internal audit department while 76.6% believed that the department is very effective in their operations as compared to 20% who said they do not see it as very effective.
2. 82.8 % of the sample population believed that the mission and the role of internal audit are well defined. In all, 73.3% agreed to the notion that their current structure of internal audit promotes objectivity, consistency and business understanding but 65.5% agreed that they lack adequate logistics.
3. As to whether there is a conflict between the accounts and audit department, 43.3% agreed to it as compared to 50% who said No. In all, 76.7% testified to the fact that the audit department has well experienced and qualified staff where 63.3% believed they are enough as compared to the size of the organization.
4. With the issue of any history of fraud and mismanagement in the organization, 43.3% did not agree to that fact as to 20.0% who said Yes but 36.7% did not know whether such practice exists or not. Also, 66.7% believed there are skilled audit staff that have the experience for risk identification in the organization.
5. It was established that, due care, professionalism and caution are exercised by the auditors in their practice and report writing as agreed by 86.7 % of employees but 51.7% revealed that such auditors do not have professional qualification such as ACCA, ICA UK, CIM etc.

6. In relation to good governance in the allocation of funds, it was proven that the department lacked adequate logistics which could have been used in carrying out their auditing work effectively.

7. The internal auditors were not seen to be part of any internationally recognized body leading them not to be highly recognized at the workplace though it is a statutory recommendation that the auditor should be a professional accountant belonging to a recognized institution including ACCA, ICA UK, CIMA and IPA and even most of the staff contributed to this as tested and proven in the hypothesis.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1. SUMMARY

Activity reports of internal auditing departments highlights significant audit findings and recommendations and inform senior management and board of any significant deviation from approved audit work schedules, staffing plans, financial budgets and reasons for them.

The findings from the research analyzed that there were a lot of incompetence as well as weaknesses on the part of staff of these departments. The study was to examine the concept of internal auditing from the professional internal auditing standards perspective to impact an understanding of the role of internal auditing and to improve the practice of internal auditing promoting effective and efficient financial management in the public sector. The following were identified:

- **Analytical audit procedures does not really exist in the firm:** This is performed by studying and comparing relationships among both the financial and non-financial information. The application of analytical audit procedures are based on the premise that, the absence of known conditions to the contrary, relationships among information may reasonably be expected to exist and continue. This has to do with the issue that even if majority said there were no fraud and mismanagement, the number of respondents who disagreed makes it suspicious and unstable. This means that there is an element of fraud and mismanagement which has been covered up.
- **Conflict between the audit and accounts department:** There seems to be some atom of conflict because those who attest to this fact are almost on a leveled ground with those who said there hasn't been any conflict of that sort. This means that transactions between these two departments can be difficult causing friction because each department will not release information especially financial statements easily to the other. This can slow down audit work.
- **Lack of value creation and addition:** Organizations exist to create value or benefit to their owners, customers, clients and other stakeholders which provides the purpose of their existence. In the organization, the procedure for activity performance has been in

the old system and there is no adaption to change. From the study, it portrays that personnel in the organization don't regularly attend workshops instituted by management to upgrade themselves.

- **Lack of relevant logistics:** The advent of adequate relevant logistics is one of the problems that scores high in the public sector organizations especially the one understudy. This means that audit work is normally slowed down because the equipment to be used in speeding up the day to day activities are high jacked. This will make audit work difficult and its effectiveness and efficiency questionable.
- **Inadequate control over audits and performance:** Management of the organization has no plans to institute new policies to improve upon the audit performed by staff with the old system still in use. Also with the advent of staff especially auditors not been professionally recognized by the relevant bodies though respondents claim to have qualified staff, their knowledge on current principles will be short-circuited because they will be ignorant in those areas of importance.
- **Non existence of audit work schedules:** These identify what activities are to be audited, when they will be audited and the budgeted time frame taking into account the scope of audit work planned and then the nature and extent of audit work performed by others.

5.2. CONCLUSIONS

Internal audit is an effective tool of management control to carry on the operations of the organization in an orderly manner to protect and safeguard its assets and ensure the accuracy and reliability of records. It also ensures the increase of operational efficiency.

Politicians and scholars have commented on audit systems usually with references to its financial management with some expressing favorable opinions and others, negative opinions.

However, the problem in the country's public sector management continues raging probably due to the inaction by the policy makers, management and attitudes of the citizens as well as the complexity of the system.

5.3. RECOMMENDATIONS

There are a number of recommendations which would help prevent or minimize improper financial management:

- i. Audit work schedules should be prepared by the head of department to enable employees to be aware of what is expected of them from their audits. For the effective work of the internal auditors, adequate logistics should be provided by the appropriate authorities in charge.
- ii. Employees especially auditors without professional qualifications should be encouraged to upgrade themselves and also reshuffling should be done to enable the unskilled ones develop their expertise.
- iii. There must be restructuring of audit objectives, procedures and audit programmes such as analytical auditing procedures to compare reports on financial information for the previous and current years to identify changes that might have occurred due to the collection and recording of revenue from various sub-metros.
- iv. In the process of gathering data to understand and assess risks, internal auditors must develop significant insight on operations and opportunities for improvement that can be extremely beneficial to the organization. This valuable information can be in the form of consultation, advice and written communications.
- v. Registers should be provided by management through department heads to monitor compliance by employee which could be updated by the human resource management as to the payment of salaries according to the hours spent on performing duties by the employees at the workplace.
- vi. Those who are already in the department but do not belong to any professional recognized body should be given an ultimatum to do so or will face an option of moving out of the department.

- vii. Internal auditors should benefit from allowances and incentive to curb the issue of fraud and mismanagement.

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SAMPLE QUESTIONNAIRE

CHRISTIAN SERVICE UNIVERSITY COLLEGE

Well performing internal audit function is one of the strongest means to promote and monitor good governance in an organization. The purpose of this research is to conduct a survey on selected government organizations and to assess and determine how to enhance internal audit to promote efficient and effective financial management in the public sector. In view of this, you are kindly requested to complete this questionnaire. Please provide the following information about your organization by ticking the appropriate answer:

1. Do you have an internal audit department in your organization?
Yes { } No { } Don't know { }
2. Do you believe that the internal audit department is effective in this organization?
Yes { } No { } Don't know { }
3. Does the current structure of internal audit promote objectivity, consistency and business understanding?
Yes { } No { } Don't know { }
4. Do you believe that the mission and role of internal audit functions are defined?
Yes { } No { } Don't know { }
5. Are there any conflicts between the audit department and the accounts department?
Yes { } No { } Don't know { }
6. Is the internal audit free to choose any transaction or area of interest for audit?
Yes { } No { } Don't know { }
7. Has there been any history of fraud and mismanagement in this organization?
Yes { } No { } Don't know { }
8. Do you think that the organization's audit department or divisions has:
 - i. Sufficient number of staff? Yes { } No { } Don't know { }
 - ii. Appropriately qualified staff? Yes { } No { } Don't know { }
 - iii. Planning methodology in delivering a high quality audit service?
Yes { } No { } Don't know { }
 - iv. Staff that has relevant skills and experience for risk identification?
Yes { } No { } Don't know { }

- v. The relevant logistics to be able to perform?
 Yes { } No { } Don't know { }
9. Are internal audits performed on the basis of annual plan?
 Yes { } No { } Don't know { }
10. Do the auditors receive a plan i.e. planning memorandum for each engagement, establishing its objectives and scope?
11. Are internal audit tasks defined on the basis of prior risk analysis?
 Yes { } No { } Don't know { }
12. Does the auditing department consider the professional code of ethics and behavior that have become necessary?
 Yes { } No { } Don't know { }
13. It is required that in a statutory audit, the auditor should be a professional accountant belonging to a recognized institution including ACCA, ICA UK, CIMA and IPA. Does the audit staff have such qualifications?
 Yes { } No { } Don't know { }
14. Have there been issues of a leakage of confidential issues in this organization?
 Yes { } No { } Don't know { }
15. Auditors should be seen to be performing their work with honesty, diligence and responsibility. Are these practiced by the audit staff in your organization?
16. Has there been a biased assessment of financial statement on the part of any auditing staff? Yes { } No { }
17. If yes, then how many times?
 Once { } twice { } several times { } none { }
18. Due professional care, skill and caution are to be exercised by auditors in their judgments and audit report writing; are these seen?
 Yes { } No { } Don't know { }
19. Please tick where appropriate:

Which of the following audit activities is performed by your audit function?

	Yes	No	Don't know
Compliance with law and regulations			
Checking budget implementation			
Evaluating, keeping of accounting records (mistakes, delays etc.)			
Evaluating management's effort to the recovery of receivables, taxes and other collectables.			
Protecting of assets			
Wastage of resources(human, financial and physical)			
Assessing reliability and soundness of financial information			
Under performance			
Unethical behavior			

THANKS

We are thankful for your time in completing this questionnaire.