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AUDIT INDEPENDENCE: ENHANCING EFFECTIVENESS, ACCOUNTABILITY, TRANSPARENCY AND FINANCIAL PERFORMANCE IN CORPORATE INSTITUTIONS (A CASE STUDY OF ARCHDIOCESAN HEALTH PHARMACEUTICAL COMPANY, KUMASI)

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DEDICATION

This research work is highly dedicated to our family for their marvelous support and care towards my education.

ABSTRACT

Auditor independence meaning independence of both the firm engaged to perform external audits and the individual auditors who conduct the audits–is a central facet of external auditing. The previous chapter emphasized the importance of auditor independence and objectivity to internal auditing and noted the challenge to achieve true independence in internal auditing when the auditors are employees of the organization being audited. Aside from the contractual and financial relationship between an organization and its external auditors, maintaining the independence of external auditors is a strict requirement in most legal and regulatory forms of auditing, especially when the subject organization is a publicly traded entity. The lack of auditor independence in the accounting scandals and subsequent bankruptcy of major corporations including Enron and WorldCom, coupled with the subsequent dissolution of accounting firm Arthur Andersen, significantly influenced the inclusion of more stringent independence requirements in the Sarbanes–Oxley Act and subsequent rule-making by the SEC and the Public Company Accounting Oversight Board (PCAOB). The European Commission proposed and adopted similar rules in the wake of both major US corporate problems and similar scandals among European companies including Italian food producer Parmalat and Dutch retailer Ahold. The net result of these major corporate audit and accounting failures is a current regulatory environment in which auditor independence is considered absolutely essential**.** In carrying out the study, the hypotheses were formulated in line with the specific objectives. The type of research design adopted for the purpose of this study was the survey design. The design was used to examine internal audit effectiveness in improving the financial performance of a company using the pharmaceutical manufacturing industry of Ghana . The survey research made use of Archdiocesan Health Pharmaceutical as representative of the pharmaceutical manufacturing industry. This research work has contributed enormously to knowledge; it has added more empirical literature to the impact of internal audit effectiveness and financial performance and has also introduced important insights from the accounting literature.

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INTRODUCTION

1.1 Background to the Study

Most research has proven to show what efficiency is to a Company but has failed to show it effectiveness. While they sound similar, effectiveness means something entirely different than efficiency. Effectiveness is the level of results from the actions of employees and managers, while Efficiency in the workplace is the time it takes to do something. An effective employee produces at a high level, while an efficient employee produces quickly and intelligently. (Adeyeye, 2017)

According to Robertson (1976), Internal Auditing may be defined in several ways depending upon what purpose is to be served. Pickett (1976), stated that ―internal audit 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. This definition actually seeks to demonstrate the depth and breadth of the internal audit activity within an institution as against the previous orientation of reviewing payment transactions over the years.

Internal Audit is an objective and independent appraisal service within an organization on risk management, control and governance by measuring and evaluating their effectiveness in achieving the organization‘s agreed objectives. In addition, internal audit‘s findings are beneficial to the Board of Directors and line management in the audited areas. The service applies the professional skills of internal audit through systematic and disciplined evaluation of the policies, procedures and operations that management put in place to ensure the achievement of the organization‘s objectives, and through recommendations for improvement (Dumitrescu, 2004).

Most internal audit professionals argue that an effective internal audit function correlates with improved financial performance. According to Bejide (2006), an effective internal audit service can, in particular, help reduce overhead, identify ways to improve efficiency and maximize exposure to possible losses from inadequately safeguarded company assets all of which can have a significant effect on the bottom line. Similarly, Venables and Impey (1991) had stated that internal audit is an "invaluable tool of management for improving performance". Fadzil (2005) had also noted that internal auditors help run a company more efficiently and effectively to increase shareholders' value". And Hermanson and Rittenberg (2003) had argued that the existence of an effective internal audit function is associated with superior organizational performance.

At the empirical level, a survey conducted by KPMG (1999) found that the internal audit function in organizations where it exists, contributes substantially to performance improvement and assist in identifying profit evidence in corporate disasters, particularly financial fraud consistently documents an association between weak governance (e.g. less independent boards or the absence of an internal audit function) and the incidence of problems (e.g. Dechow, 1996; Beasley, 1996, Beasley 2000; Abott 2000). Thus, internal audit by acting as a watchdog could save the organization from malpractices and irregularities thus enabling the organization to achieve its objectives of ensuring high level of productivity and profit.

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations (Institute of Internal auditors (IIA), 1999). The scope of internal audit should be to cover the systematic review, appraising and appraising and reporting on adequacy of systems of managerial, financial, operational and budgetary controls and their reliability in practice (ACCA Internal Audit bulletin, 1999).

The financial statement audit is a monitoring mechanism that helps reduce information asymmetry and protect the interests of the various stakeholders by providing reasonable assurance that the management's financial statements are free from material misstatements. The societal role of auditors should be a key contribution to financial performance, in terms of reducing the risks of significant misstatements and by ensuring that the financial statements are elaborated according to preset rules and regulations. Lower risks on misstatements increase confidence in capital markets, which in turn lowers the cost of capital for firms (Heil, 2012; Watts and Zimmerman, 1986)

The basic purpose of financial statements in the view of Meigs and Meigs (1981) is to assist decision makers in evaluating the financial strength, profitability and the future prospects of a business entity. The basic objective for preparing financial statement is to provide information useful for making economic decisions. The objective of an audit of financial statements is to enable the auditor express an opinion whether the financial statements are prepared in all material respects and also in accordance with auditing standard.

The function of auditing is to lend credibility to the financial statement. The financial statements preparation is the responsibility of the management, while auditor responsibility is to lend credibility of the financial statements. The auditor also increases the credibility of other non-audited information which is released by the management. For an audit to be credible and reliable, it must be performed by someone who is independent and cannot be influence by position, power which will affect its own conclusion. The securities exchange commission approved new auditor independence regulation which requires that traded companies should disclose the level of fees that were paid to their external auditor for non-audit services. (Olagunju, 2011)

1.2 Statement of the Problem

In developing countries like Ghana, a company whether large, medium or small faces the special problem of audit ineffectiveness. These problems which include incomplete recording of accounts, poor attitude to adhere to the accounting standards and guideline coupled with incessant fraud and defalcation have warranted that the techniques of audit should be mastered by accountants.

Financial reports as stated in Igben (1999) are meant to be a formal record of business activities and these reports are meant to provide an overview of the financial position and profitability in both short and long term of companies to the users of these financial statements such as shareholders, managers, employees, tax analyst, banks, etc. But in recent times, the financial manipulations, weak internal control systems, ignorance on the part of the board of directors and audit committee, manipulation on the part of the reporting auditor and other fraudulent activities that occur within companies, creating a negative goodwill to the general public. A typical example of a financial statement malfunction is the popular case of Enron. Enron was one of the largest energy companies in the US. By fraud and bribery, Enron executives avoided income taxes, and this lead to the downfall of this multi-billion dollar firm. Importantly, this wasn’t the first; a similar case appeared in 1973, when equity funding, an insurance firm located in Los Angeles went bankrupt (Mclean and Elkin, 2003). In fact every year, a new business fraud is unravelled, often with similar components: corporate instability, uniformed accountants, high-level connections, and broke investors (Swartz and Watkins, 2003).

Enron started in July 1985 when Omaha-based inter-north merged with Houston natural gas. Kenneth lay, who had originally held positions in academia and the government, became chief executive and chairman. By 2001, Enron had grown to one of the largest energy companies in the world (Mclean and Elkin, 2003). However, the company sudden by unravelled and collapsed.

Some other examples of corporate failure on the local scene are Lever plc. now Unilever in (1998) and African Petroleum (2000). From the above discussions, there is need to ensure credibility of financial statement of companies in order to increase users confidence and thereby affecting investors behavior. This study seeks to investigate how Auditors Independence, Professional Competence of an auditor and proper Audit Check affects the financial performance of an Organization.

1.3 Objectives of the Study

The main objective of this study was to evaluate and determine the Internal Audit independence, enhancing Effectiveness on the Financial Performance of a Corporate institution. The specific objectives are to:

i. Examine the contributions of auditor’s independence on the financial performance of the company.
ii. Determine the effect of the Professional Competence of an auditor on the financial performance of a company.

iii. Examine how Audit Checks affects the transparency, accountability and Financial Performance of a Company.

1.4 Research Questions

In order to give direction to the study, the following questions were answered in the course of carrying out the study:

1. What effect do the contributions of auditor's independence have on the financial performance of the company?
2. What impact does the professional competence of an auditor have on the financial performance of a company?
3. How does audit checks affects the transparency, accountability and Financial Performance of a Company?

1.5 Research Hypotheses

In carrying out this study, the hypotheses were formulated in line with the specific objectives.

Hypothesis one

H_0: There is no significant relationship between the contributions of auditor's independence and the financial performance of the company.

H_1: There is a significant relationship between the contributions of auditor's independence and the financial performance of the company

Hypothesis Two

H_0: There is no significant relationship between the Professional Competence of an auditor and the financial performance of a company

H_1: There is a significant relationship between the Professional Competence of an auditor and the financial performance of a company

Hypothesis Three

Ho: There is no significant relationship between audit Checks and the Financial Performance of a Company.

H_1: There is a significant relationship between audit Checks and the Financial Performance of a Company.

1.6 Significance of the Study

Considering the above aims and objectives, there is the need to inform other users of the company's financial information on the effectiveness of internal audit as the tool for improving company's financial performance, transparency and accountability. The aim of this research is to show how an effective internal audit can prevent fraud because if fraud is detected and prevented on time, the corporate objective will be attained on time.

This research work will also be of benefit to the Pharmaceutical Manufacturers Association of Ghana. PMAG prides itself on its ability to advocate policy, business information and development, etc. This research work will help them in the area of policy making.

Audit is an effective tool for a Business Management, as internal audit is conducted in order to ensure the policies are being followed. It also aims at showing how an effective audit will increase the performance of a company and also enable them to make valuable suggestions for improvement and to formulate future policies of a business.

In view of this, the researcher seeks to investigate the effectiveness of internal audit to a corporate institution in Ghana .

The study will further be of use to other researchers who will embark on this topic, building on any gap found in it, or diversifying to any part that is not touched by reason of the research.

1.7 Scope of the Study

For the purpose of this research work, the researchers focused their attention on the effectiveness of internal audit as a tool for improving company's financial performance, transparency and accountability using Archdiocesan Health Pharmaceutical Company in Kumasi as a case study. The concentration on the above named pharmaceutical companies is as a result of the fact that the research envisaged a possible danger the effectiveness of carrying this research work on a longer scope to embrace all the companies in Ghana will seriously be hampered by many inevitable factors. The data centre for this work is Ghana Pharmaceutical Association.

1.8 Limitation of the Study

The research cannot treat all aspect and kind of internal audit effectiveness because the field is simply too wide. So only those relevant to these studies were dealt with.

It is impossible to cover all the pharmaceutical manufacturing companies in Ghana and as a result a sample of one manufacturing company- Archdiocesan Health pharmaceutical was scheduled and inferences made from these.

There are limitations on resources for reference purposes especially responses on collection of data, many respondents give bias responses probably because of job protection, officer's name and image protection, personal reluctance, unnecessary fear of legal implication and so forth. The general information of the question was structured in a way that the respondent remains anonymous.

This work should not be viewed as a final solution to the effect of internal audit on financial performance, transparency and accountability.

1.9 Definition of Terms

Auditing: Systematic examination and verification of a firm's books of account, transaction records, other relevant documents, and physical inspection of inventory by qualified accountants (called auditors).

Effectiveness: The degree to which objectives are achieved and the extent to which targeted problems are solved. In contrast to efficiency, effectiveness is determined without reference to costs and, whereas efficiency means "doing the thing right," effectiveness means "doing the right thing."

Performance: The accomplishment of a given task measured against preset known standards of accuracy, completeness, cost, and speed. In a contract, performance is deemed to be the fulfillment of an obligation, in a manner that releases the performer from all liabilities under the contract.

Company: A voluntary association formed and organized to carry on a business. Types of companies include sole proprietorship, partnership, limited liability, corporation, and public limited company.

Audit Check: This is an examination of record or financial accounts to check their accuracy.

Professional competence: To audit public companies, auditors must be registered in professional organizations. Auditors must meet all the requirements of registration and inspection.

Financial Performance: This is a subjective measure of how well a firm can use assets from its primary mode of business and generate revenues. It is measured using profitability, liquidity, dividend, earnings and so on.

Auditors Independence: Auditor independence can be defined as a reference to the independence of internal or external auditors from parties that might have a financial interest in the business being audited.

Internal Audit: An internal audit is the examination, monitoring and analysis of activities related to a company's operations, including its business structure, employee behavior and information systems.

Internal Audit Effectiveness: This is the degree (including quality) to which established objective is achieved.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

In this chapter, literature related to the study is revised with a view to examine how internal audit effectiveness affects financial performance, transparency and accountability.

2.1 Theoretical Model

2.1.1 Agency Theory

Agency theory is concerned with resolving problems that can exist in agency relationships; that is, between principals (such as shareholders) and agents of the principals (for example, company executives). The two problems that agency theory addresses are: the problems that arise when the desires or goals of the principal and agent are in conflict, and the principal is unable to verify what the agent is actually doing and the problems that arise when the principal and agent have different attitudes towards risk. Because of different risk tolerances, the principal and agent may each be inclined to take different actions.

Agency theory and the internal audit as propounded by Adams (1994) is one of the theoretical framework that guided this study. Agency theory is extensively employed in the accounting literature to explain and predict the appointment and performance of external auditors and financial consultants. He argued that, agency theory also provides a useful theoretical framework for the study of internal auditing function. He also proposed that agency theory not only helps to explain and predict the existence of internal audit but that is also helps to explain the role and responsibilities assigned to internal auditors by the organization and that agency theory predicts how the internal audit function is likely to be affected by organizational change. He concludes that agency theory provides a basis for rich research, which can benefit both the academic community and internal auditing profession. This theory no doubt relates to this study as it helps to explain the role and responsibilities of internal auditors which if methodically applied would help to improve financial performance in tertiary institutions in Nigeria.

According to Anderson, Francis & Stokes (1993), Agency theory describes firms as necessary structures to maintain contracts, and through firms, it is possible to exercise control which minimizes opportunistic behaviour of agents. In order to harmonize the interest of the agent and the principal, a comprehensive contract is written to address the interest of both the agent and the principal; they further explain that the relationship is further strengthened by the principal employing an expert to monitor the agent.

Other related reviews include the Sarbanes-Oxley act of 2002 (SOX) which requires companies to report on the effectiveness as part of an overall effort to reduce fraud and restore integrity to the financial reporting process

2.1.2 Contingency Theory

The goal of an audit is to test the reliability of a company‘s information, policies, practices and procedures. Government regulations require that certain financial institutions undergo independent financial audits, but industry standards can mandate audits in other areas such as safety and technology. Regardless of the audit subject, various factors impact a company‘s final results, and the contingency theory takes these factors into account during the audit process.

The contingency theory of leadership and management states that there is no standard method by which organizations can be led, controlled and managed. Organizations and their functions depend on various external and internal factors. The functions of audits are themselves, types of organizations that are affected by various factors in the environment. The presence of such factors is why auditing can be managed by applying the contingency theory, with a recognition that processes and outcomes of audits are dependent on variable and contingent factors.

On a broad level, the audit process is straightforward. Auditors require access to documents, systems, policies and procedures to manage an audit. They must remain compliant with industry standards, government regulations and internal requests. Audit teams may begin the audit process with meetings where they gather risk and control awareness, after which the field work begins. During the audit process, auditors perform substantive procedures and test controls. They then draft reports that they submit to management and regulatory authorities. The audit sub processes, particularly in planning and field work, include contingencies such as business type, employee skill level, applicable laws, available audit workforce, available technology and systems, and deadline.

Daft (2012) in his book writes: Contingency means: one thing depends on other things and Contingency theory means: it depends. Audit functions are task-oriented and can be loosely structured. The functions also can vary considerably, depending on the area of a company under audit and the type of business model, so auditors must carefully manage their inspections and take variables into account to get the job done. The contingency theory also can be applied to an audit team‘s structure. Typically, audit team managers receive audit projects. They then create ad hoc audit teams for the projects, selecting auditors based on expertise and experience in the subject areas, and on auditor availability, all of which add up to contingencies for any given audit project. A contingency theory also differs from other theories in the form of specific propositions, this is because it's hypothesize a conditional relationship between two or more independent variables with a dependent variable and subject it to an empirical test (Drazin & Van de Ven, 1985). 9

Audit teams use a mix of structure and contingency to get the output rolling quickly. The subject of auditing projects can include such diverse areas as evaluation of production processes, inspection of company accounts, and assessment of compliance with industry standards. Selecting auditors with specialized training or those who have a particular skill set in the subject area minimizes the learning curve and reduces opportunities for errors. The quality and output of audits remain assured when audit teams use resources according to expertise and experience, and when auditors are flexible and can adapt to process fluctuations. For example, an auditor experienced in evaluating financial instruments can be effective in an audit exercise of a bank or hedge fund, even when the financial instruments the institution offers do not fit the typical mold (Davoren, 1994). Therefore, this study proposes that financial performance of manufacturing firms is contingent upon those components of internal audit effectiveness.

2.1.3 Stakeholder's Theory

According to Owolabi (2012), every organization in business, whether for profit making or not, produces mission and vision statements. In the process of actualization of the specific objectives and goals that emanate from the mission statements, strategy becomes a constant and very relevant factor. It is a common practice that to achieve some set of objectives and goals, there are basic stakeholders that are crucial in the attainment of those objectives. Most business organizations see profit maximization as number one on the list of their various objectives. The process of maximizing these objectives requires that the stakeholders be satisfied. The stakeholders include the shareholders or the owners, customers, creditors, investors, and many others. All stakeholders are important. However, the customers are more essential. The major revenue driver is the customer; therefore the customer satisfaction is a more crucial element in the universal set of stakeholders' satisfaction.

The stakeholders' interest emanates from the quality of product and services rendered. Satisfaction of the stakeholders determines the continuity of the organization and future income. Therefore, for any organization to survive, the quality of product or services is a critical success factor that cannot be negotiated or compromised (Owolabi, 2012).

2.2 Conceptual Framework

2.2.1 What is Auditing?

The word 'Audit' is originated from the Latin word 'Audire' which means 'to hear'. In the earlier days, whenever there is suspected fraud in a business organization, the owner of the business would appoint a person to check the accounts and hear the explanations given by the person responsible for keeping the account and funds. In those days, the audit is done to find out whether the payments and receipt are properly accounted or not. (Ecataina, 2007)

The objective of modern day accounting is not only for the verification of cash but to report the financial position of the undertaking as disclosed by its Balance sheet and Profit and Loss account.

A precise definition of the term 'Auditing' is difficult to give. Some of the definitions given by different authors are as follows:

According to Montgomery, a well-known author, "auditing is a systematic examination of the books and records of a business or the organization in order to ascertain or verify and to report upon the facts regarding the financial operation and the result thereof."(Ecataina, 2007)

Spicer and Pegler expanded the above definition as follows:

"An audit may be said to be such an examination of the books, accounts and vouchers of a business as well enable the auditor to satisfy that the Balance Sheet is properly drawn up, so as to give a true and fair view of the state of affairs of the business and whether the Profit or Loss for the financial period according to the best of his information and the explanations given to him and as shown by the books, and if not, in what respect he is not satisfied."(Ecataina, 2007)

According to Lawrence Dicksee, "an audit is an examination of accounting records undertaken with a view to establishing whether they correctly and completely reflect the transactions to which they relate. In some instances, it may be necessary to ascertain whether the transactions themselves are supported by authority." (Ecataina, 2007).

R. K. Mautz defines auditing as being "concerned with the verification of accounting data, with determining the accuracy and reliability accounting statement and reports."

It is clear from the above definitions that auditing is the systematic and scientific examination of the books of a accounts and records of a business so as to enable the auditor to satisfy himself that the Balance Sheet and the Profit and Loss Account are properly drawn up so as to exhibit a true and fair view of the financial state of affairs of the business and profit or loss for the financial period. The Auditor will have to go through various books and accounts and related evidence to satisfy himself about the accuracy and authenticity to report the financial health of the business. (Ecataina, 2007)

According to Muhammad, (2012), in very simple words auditing is the evaluation of any 'Person'. In legal terms person means; An individual , Association of Persons (AOP) and a Company. But the students of Professional accountancy like CPA, C.A and Management Accountants mostly concentrates on auditing and involved in Auditing activities like; Financial auditing, cost auditing and Internal control. What is Auditing ? Every beginner ask from his teacher or his friend. Basically all authors define auditing in the same manner, but different professional bodies have their different modified definitions, for example one for understanding:

International Auditing Guidelines used to define Audit as:

"An audit is the independent examination of financial statement or related 'information of an entity', whether profit oriented or not and irrespective of its size, or legal form when such an examination is conducted with a view to express an opinion thereon".(Muhammad, 2012)

This definition comprises on:

1. **Independent Examination: -** It means that auditor (The person appointed by company with the approval of shareholders to conduct audit) must be independent and he has all the written or express powers to examine any document for evaluation. Management of the company must provide him all the details for proof.

2. **Financial Statement:-** Basically auditor evaluate the company on the basis of financial statements; Like he check out that whether F/S are being produced in accordance with local laws (Companies laws, Tax laws, etc.) and international laws (IFRS, IAS) etc.

3. **Nature of Entity: -** The audit may be of profit oriented business or not for profit entity. Profit making business like companies working in the field of ; Oil and Gas, Aviation, Telecom etc. and NPO (Not Profit Organization) like working in the field of; Education, Sports, Charity and religious activities.

4. **Opinion**: - The purpose of appointment of auditor is to assure to shareholders and stakeholders (Banks, employees, Supplier, Govt...) That company is complying with rules and regulations and there is no evidence for any fraud and misstatement in documentation. So auditor assess the audit on the basis of certain tests like by sampling or by checking some important records about assets or payments on random basis. Auditor always give his opinion, because nobody can find out clear crystal performance of business but on certain pre-determined assumption he gives his written opinion whether financial statements are giving true and fair view or not.(Muhammad, 2012)

2.2.2 Origin and Evolution

The term audit is derived from the Latin term ‘Audire,’ which means to hear. In early days an auditor used to listen to the accounts read over by an accountant in order to check them

Auditing is as old as accounting. It was in use in all ancient countries such as Mesopotamia, Greece, Egypt. Rome, U.K. and India. The Vedas contain reference to accounts and auditing. Arthasashthra by Kautilya detailed rules for accounting and auditing of public finances.

The original objective of auditing was to detect and prevent errors and frauds.

Auditing evolved and grew rapidly after the industrial revolution in the 18th century. With the growth of the joint stock companies the ownership and management became separate. The shareholders who were the owners needed a report from an independent expert on the accounts of the company managed by the board of directors who were the employees.

The objective of audit shifted and audit was expected to ascertain whether the accounts were true and fair rather than detection of errors and frauds.

In India the companies Act 1913 made audit of company accounts compulsory. With the increase in the size of the companies and the volume of transactions the main objective of audit shifted to ascertaining whether the accounts were true and fair rather than true and correct. Hence the emphasis was not on arithmetical accuracy but on a fair representation of the financial efforts.

The companies Act.1913 also prescribed for the first time the qualification of auditors.

The International Accounting Standards Committee and the Accounting Standard board of the Institute of Chartered Accountants of India have developed standard accounting and auditing practices to guide the accountants and auditors in the day to day work.

The later developments in auditing pertain to the use of computers in accounting and auditing. In conclusion it can be said that auditing has come a long way from hearing of accounts to taking the help of computers to examine computerized accounts. (Ecataina, 2007)

2.2.3 Objectives of Auditing

There are two main objectives of auditing. The primary objective and the secondary or incidental objective.

1. Primary objective – as per Section 227 of the Companies Act 1956, the primary duty (objective) of the auditor is to report to the owners whether the balance sheet gives a true and fair view of the Company's state of affairs and the profit and loss A/c gives a correct figure of profit of loss for the financial year.
2. Secondary objective – it is also called the incidental objective as it is incidental to the satisfaction of the main objective. The incidental objective of auditing are: Detection and prevention of Frauds, and Detection and prevention of Errors.

Detection of material frauds and errors as an incidental objective of independent financial auditing flows from the main objective of determining whether or not the financial statements give a true and fair view. As the Statement on auditing Practices issued by the Institute of Chartered Accountants of India states, an auditor should bear in mind the possibility of the existence of frauds or errors in the accounts under audit since they may cause the financial position to be mis-stated.

Fraud refers to intentional misrepresentation of financial information with the intention to deceive. Frauds can take place in the form of manipulation of accounts, misappropriation of cash and misappropriation of goods. It is of great importance for the auditor to detect any frauds, and prevent their recurrence. Errors refer to unintentional mistake in the financial information arising on account of ignorance of accounting principles i.e. principle errors, or error arising out of negligence of accounting staff i.e. Clerical errors**.** (Ecataina, 2007)

2.2.4 The Need for Auditing

Delathe (2012), stated that auditing in the past, have been considered as a simple administrative procedure comprised mainly of checking accuracy of transactions pre-payment verification and control, counting assets and reporting in past event, a combination of forces, has, in recent time, let to a quiet revolution in the accounting profession, Government, private and public companies are moving towards a higher level of transparency and as such demonstrate accountability and stewardship in the use of resources entrusted to them.

Reason for Auditing includes

1. Evaluation and risk management
2. Control and Government processes
3. Investigative and Advisory services

Clement (2012), note that audit system is important for a company because its enables it to pursue and attain its various corporate objectives. Business processes need various forms of interval control to facilitate supervision and monitoring, prevent and detect irregular transaction, measure ongoing performance, maintaining adequate business records and to promote operations productivity, interval Auditors, review the design of the interval control and informally propose improvement and document any materials irregularities to enable further investigation by management if it is warranted under the circumstances.

Manguis (2011), observed that auditing helps top management manage corporate affairs, providing guidance on various issues ranging from financial accuracy to interval control to regulatory compliance. They also help department heads indentify tools and methodologies to improve operational activities, putting companies on a more sustainable path. The need for Auditing stems from.

1. Internal control
2. Financial Review
3. Regulatory monitoring

Uwota (2012), conductively ascribed that the need for auditing rose from the following point which are.

1. Financial statement may actually not represent the financial position of the organization.
2. The accounts prepared by the company's accountant(s) may contain errors on misstatement.
3. Separation of ownership from management of companies.
4. Meeting statutory requirements.
5. Establishing a degree of correspondence between assenting made by management and users criteria.

2.2.5 Types of Audit Engagements

Audit is an appraisal activity undertaken by an independent practitioner (e.g. an external auditor) to provide assurance to a principal (e.g. shareholders) over a subject matter (e.g. financial statements) which is the primary responsibility of another person (e.g. directors) against a given criteria or framework (e.g. IFRS and GAAP).

Main types of audit engagements and services include:

- External Audit
- Internal Audit
- Forensic Audit
- Public Sector Audit
- Tax Audit
- Information System Audit
- Environmental & Social Audit
- Compliance Audit
- Value for Money Audit

2.2.5.1 External Audit

According to Ecataina (2007), external audit, also known as financial audit and statutory audit, involves the examination of the truth and fairness of the financial statements of an entity by an external auditor who is independent of the organization in accordance with a reporting framework such as the IFRS. Company law in most jurisdictions requires external audit on annual basis for companies above a certain size.

The need for an external audit primarily stems from the separation of ownership and control in large companies in which shareholders nominate directors to run the affairs of the company on their behalf. As the directors report on the financial performance and position of the company, shareholders need assurance over the accuracy of the financial statements before placing any reliance on them. External audit provides reasonable assurance to the owners of the company that the financial statements, as reported by the directors, are free from material misstatements.

External auditors are required to comply with professional auditing standards such as the International Standards on Auditing and ethical guidelines such as those issued by IFAC in order to maintain a level of quality and trust of all stakeholders in the auditing exercise.

2.2.5.2 Internal Audit

According to Ecataina (2007), internal audit, also referred as operational audit, is a voluntary appraisal activity undertaken by an organization to provide assurance over the effectiveness of internal controls, risk management and governance to facilitate the achievement of organizational objectives. Internal audit is performed by employees of the organization who report to the audit committee of the board of directors as opposed to external audit which is carried out by professionals independent of the organization and who report to the shareholders via audit report.

Unlike external audit, whose scope is primarily restricted to matters that concern the financial statements, the scope of work of an internal audit is very broad and can encompass any matters which can affect the achievement of organizational objectives. Internal audit is typically centered on certain key activities which include:

- Monitoring the effectiveness of internal controls and proposing improvements
- Investigating instances of fraud and theft
- Monitoring compliance with laws and regulations
- Reviewing and verifying where necessary the financial and operating information
- Evaluating risk management policies and procedures of the company
- Examining the effectiveness, efficiency and economy of operations and processes.

2.2.5.3 Forensic Audit

According to Ecataina (2007), forensic Audit involves the use of auditing and investigative skills to situations that may involve legal implications. Forensic audits may be required in the following instances:

- Fraud investigations involving misappropriation of funds, money laundering, tax evasion and insider trading
- Quantification of loss in case of insurance claims
- Determination of the profit share of business partners in case of a dispute
- Determination of claims of professional negligence relating to the accountancy profession
- Findings of a forensic audit could be used in the court of law as expert opinion on financial matters.

2.2.5.4 Public Sector Audit

According to Ecataina (2007), State owned companies and institutions are required by law in several jurisdictions to have their affairs examined by a public sector auditor. In many countries, public sector audits are conducted under the supervision of the auditor general which is an institute responsible for strengthening public sector accountability and governance and promoting transparency.

Public sector audit involves the scrutiny of the financial affairs of the state owned enterprises to assess whether they have been operated in way which is in the best interest of the public and whether standard procedures have been followed to comply with the requirements in place to promote transparency and good governance (e.g. public sector procurement rules). Public sector audit therefore goes a step further than the financial audit of private organizations which primarily focuses on the reliability of financial statements

Audits of public sector companies are becoming increasingly concerned with the efficiency, effectiveness and economy of resources used in state organizations which has given way for the development of value for money audits.

2.2.5.5 Tax Audit

According to Ecataina (2007), Tax audits are conducted to assess the accuracy of the tax returns filed by a company and are therefore used to determine the amount of any over or under assessment of tax liability towards the tax authorities.

In some jurisdictions, companies above a certain size are required to have tax audits after regular intervals while in other jurisdictions random companies are selected for tax audits through the operation of a balloting system.

2.2.5.6 Information System Audit

According to Ecataina (2007), Information system audit involves the assessment of the controls relevant to the IT infrastructure within an organization. Information system audits may be performed as part of the internal control assessment during internal or external audit.

Information system audit generally comprises of the evaluation of the following aspects of information system:

- Design and internal controls of the system
- Information security and privacy
- Operational effectiveness and efficiency
- Information processing and data integrity
- System development standards.

2.2.5.7 Environmental & Social Audit

According to Ecataina (2007), Environmental & Social Audits involve the assessment of environmental and social footprints that an organization leaves as a consequence of its economic activities. The need for environmental auditing is increasing due to higher number of companies providing environment and sustainability reports in their annual report describing the impact of their business activities on the environment and society and the initiatives taken by them to reduce any adverse consequences.

Environmental auditing has provided a means for providing assurance on the accuracy of the statements and claims made in such reports. If for example a company discloses the level of CO_2 emissions during a period in its sustainability report, an environment auditor would verify the assertion by gathering relevant audit evidence.

2.2.5.8 Compliance Audit

According to Ecataina (2007), in many countries, companies are required to conduct specific audit engagements other than the statutory audit to comply with the requirements of particular laws and regulations. Examples of such audits include:

Verification of reserves available for distribution to shareholders before the declaration of interim dividend

Audit of the statement of assets and liabilities submitted by a company at the time of liquidation

Performance of cost audit of manufacturing companies to verify the cost of production in order for a regulator to determine the maximum price to be allowed after allowing a reasonable profit margin to companies operating in a sensitive sector (e.g. pharmaceuticals industry).

2.2.5.9 Value for Money Audit

According to Ecataina (2007), Value for money audits involves the assessment of the efficiency, effectiveness and economy of an organization's use of resources.

Value for money audits are increasingly relevant to sectors which do not have profit as their main objective such as the public sector and charities. They are usually performed as part of internal audit or public sector audit.

2.2.6 Auditors' Independence

An independent audit committee enhances the independence of external auditor, and ensures that auditor is free from management influence. The committee can conduct informal and private meetings without the presence of the company's management to encourage the external auditor to be transparent on material issues at an early stage. The best known definition of independency in academic literature is De Angelo, [1981], P. 186): The conditional probability of reporting a discovered breach. Others include: an attitude/state of mind Schuetze, [1994]; a function of character with the integrity and trustworthiness being key Magill and Previts, [1991]. The U.K.s guide to professional ethics refers to integrity, objectivity, and independence. No definition is offered of integrity and independence, but objectivity is defined as the state of mind which has regard to all considerations relevant to the task in hand but no other. It is sometimes described as independence of mind CAJEC, [1966].

Ponemon and Gabhart, [1990] used Kohlberg stage model of moral development and ethical cognition to examine an auditor's implicit reasoning in the resolution of an independence conflict. This well-validated model distinguishes three levels of ethical cognition: Pre-conventional, Conventional, and Post-conventional. They found that a systematic relationship exists between auditors measured ethical cognition and their resolution of an independence conflict in a hypothetical situation. They also found that independence judgments are significantly influenced by penalty related factors and are less sensitive to affiliation factors (i.e., living up to expectations). Windsor and Ashkanasy, [1995] extended Ponemon and Gabharts, [1990] study by including economic and personal belief variables, the moral atmosphere of the audit firm, is also being explored by researchers, although no clear results have yet emerged Ashkanasy and Windsor, [1997].

Geiger and Raghunandan, [2002] suggested that auditors with longer tenure are more likely to be independent, and are consistent with Myers [2003] in that longer auditor tenure is associated with higher quality of reported earnings. Craswell [1995]; Krishnan, [2003]. This implies that auditors with higher audit quality (i.e., auditors independent) are more likely to resist client management pressures than auditors with lower audit quality.

This study above examines auditor independence in auditor-client negotiation over financial reporting issues, and whether high quality auditors are more likely than low quality auditors to resist client management pressures in auditor-client negotiation over financial reporting issues. Wright and Wright, [1997] argued that auditor independence is at the heart of the integrity of the audit process. When auditors and clients negotiate issues about financial reporting, maintaining the integrity of the independent audit function is mandatory for auditors and required by the standards of the accounting profession. Recently, financial scandals at companies such as Enron and WorldCom have eroded public confidence in the independence of the accounting profession and the quality of audit services

2.2.6.1 Types of independence

There are three main ways an auditor's independence can manifest itself

- Programming independence
- Investigative independence
- Reporting independence

Programming independence essentially protects the auditor's ability to select the most appropriate strategy when conducting an audit. Auditors must be free to approach a piece of work in whatever manner they consider best. As a client company grows and conduct new activities, the auditor's approach will likely have to adapt to account for these. In addition, the auditing profession is a dynamic one, with new techniques constantly being developed and upgraded which the auditor must decide to use. The strategy/proposed methods, which the auditors intend to implement, cannot be inhibited in any way.

While programming independence protects auditors' ability to select appropriate strategies, investigative independence protects the auditor's ability to implement the strategies in whatever manner they consider necessary. Basically, auditors must have unlimited access to all company information. Company must answer any queries regarding a company's business and accounting treatment. The collection of audit evidence is an essential process, and cannot be restricted in any way by the client company.

Reporting independence protects the auditors' ability to choose to reveal to reveal to the public any information they believe should be disclosed. If company directors have been misleading shareholders by falsifying accounting information, they will strive to prevent the auditors from reporting this. It is in situations like this when auditor independence is most likely to be compromised.

2.2.7 Internal Audit Effectiveness

Organizations that have effective and efficient internal audit functions in place are better than any organizations that do not such effective and efficient internal audit functions in place especially in aspect to fraud detection and prevention (Corama, Fergusona, & Moroney, 2006). Some of the researches that focused on internal audit effectiveness are (Bota, & Palfi, 2009; Arena & Azzone, 2010; Cohen & Sayag, 2010; Mihret, 2010; Theofanis, Drogalas, & Giovanis, 2011; Unegbu & Kida, 2011; Feizizadeh, 2012; Badara, & Saidin, 2012; Badara, & Saidin, 2013; Badara & Saidin, 2014). For instance; Bota and Palfi (2009) carried out a literature review study on measuring and assessment of the effectiveness of internal audits, the study reveals that it is imperative to find the most appropriate methods for measuring and assessment of the effectiveness of internal audits so that to improve such effectiveness. Arena and Azzone (2010) conducted a case study research on the internal audit effectiveness: Relevant drivers of auditee's satisfaction, the result analysis of the research indicated that several factors are very relevant to drive the effectiveness of internal audit, among which the auditee cooperation in such auditing is processed.

In an empirical study carried out by Cohen and Sayag (2010) within the Israeli organizations on the internal audit effectiveness, the study employed the followings independent variables in determining internal audit effectiveness that comprised: Quality of audit work, Career and advancement, organizational independence, top management support, Professional proficiency of internal auditors and finally private versus public sector. The study reveals the strong support of top management in determining the effectiveness of internal auditors. And other determinants of internal audit effectiveness derive from support of top management. In a conceptual research carried out by Mihret, (2010) using the mediating effect of internal audit effectiveness on the relationship between organizational attribute and organizational performance through the moderating effect of management action on internal audit recommendation. The study concluded that such relationship should be empirically validated and thereby calling for more research to be conducted on internal audit effectiveness.

In a related empirical study conducted by Theofanis, (2011) in Greek Hotel Business on the internal audit effectiveness evaluation, the study used the following element of internal control system in examining the internal audit effectiveness that comprised of: Information and communication, monitoring, control environment, control activities and risk assessment. The result of the study reveals the significant of the internal control system components on the effectiveness of internal audit in the Hotel and thereby concluded by suggesting that more research on internal audit effectiveness are need using a large sample size. Likewise Unegbu and Kida (2011) conducted an empirical study at Kano state in Nigeria on the internal audit effectiveness as an instrument that improves public sector management. The study revealed that Kano state public sector of Nigeria have significant number of relevant internal audit department and such internal auditors have the ability to figure out fraudulent activities within such organizations.

Similarly, Feizizadeh (2012) carried out conceptual research on strengthening internal audit effectiveness in Iran. Finally the study discloses that most of the companies in Iran measure and quantify the performance & effectiveness of their business activities, thereafter the study concluded by recommending that measuring the performance of internal auditors is one of the factors that contribute toward their effectiveness. This shows that performance measurement is an antecedent of internal audit effectiveness. Badara and Saidin (2012) carried out another conceptual study on the effect of risk management on internal audit effectiveness at local level; the study concluded that such risk management can definitely influence the effectiveness of internal auditors at local level. Equally, Badara, & Saidin (2013) carried out another conceptual study on antecedents of internal audit effectiveness through the interaction of audit committee effectiveness, the study concluded that such relationship should be validated and finally emphasize on more research to be conducted on internal audit effectiveness.

Therefore, having identified some of the previous studies on internal audit effectiveness, it's quite agreeing that such effectiveness has been examined by different variables and this is in line with interpretations made by (Arena & Azzone, 2010; Cohen & Sayag, 2010; Mihret, 2010; Theofanis, 2011) that different variable can be employ in examining such effectiveness. But then, despite the above studies on internal audit effectiveness, none of the studies empirically examine the effect of performance measurement on internal audit effectiveness. Therefore, this study extends the previous via presenting the empirical evidence on the effect of performance measurement on internal audit effectiveness using the perceptions of internal auditors.

2.2.8 Professional Competence

Detecting fraud is a challenging task. Perpetrators actively engage in deception in an attempt to conceal their behavior, auditors may have limited experience in fraud detection, and fraudulent activities are inherently unpredictable and difficult to detect (Herz and Schultz, 1999; Kaplan 2010; Nieschwietz 2000). Hence, the organization would be optimally served by identifying and utilizing those individuals who, because they appear to share certain unique personality traits or characteristics, may be best suited to the fraud detection task. For example, Uecker (1981) used perceptions of relative aggressiveness between internal and external auditors to investigate the detection of corporate irregularities. Internal auditors play an important role in fraud detection with most frauds identified by the internal audit function (KPMG, 2003, Norman 2010). Due to the importance of effective fraud detection, any measures that can enhance the efficacy of auditors should be of value. While experience and ability are undeniably important in the detection process, certain individual characteristics may be predictive of the capacity to detect fraud (Ashton, 1999). Understanding how auditors are perceived, and how these perceptions lead to beliefs regarding their detection abilities, is an important first step in relating personality traits to the efficacy of auditors.

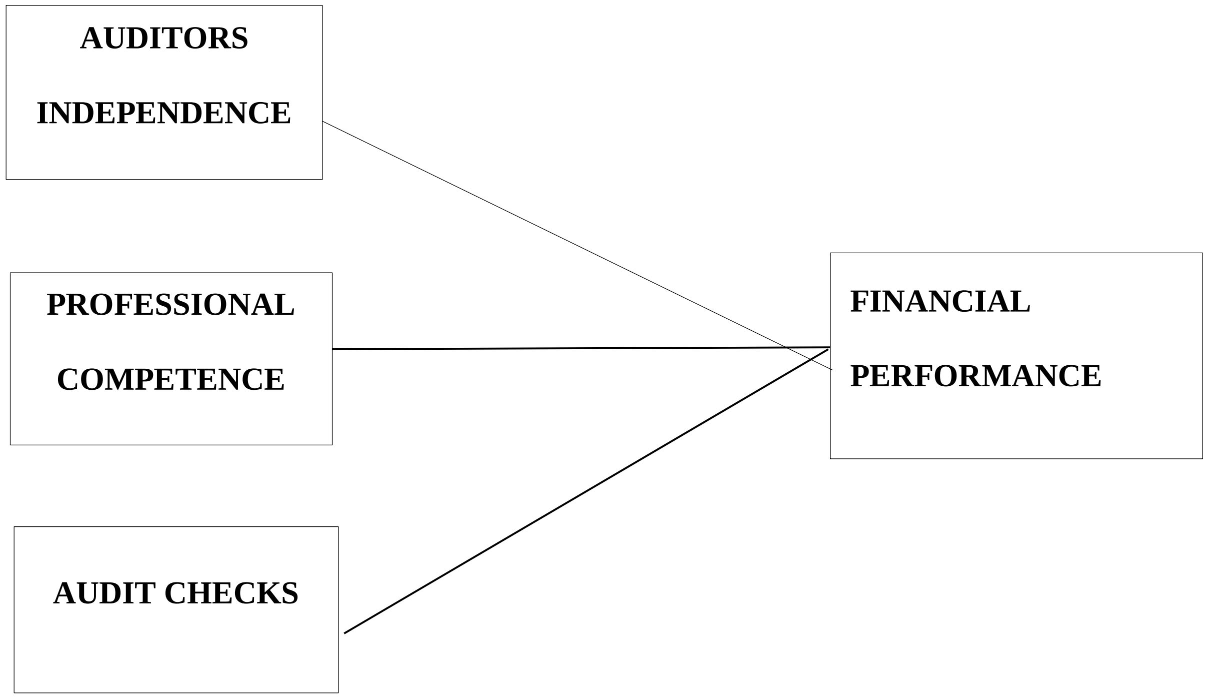
A review of the research reveals a general acknowledgment that the five factor model can be used as a descriptive mechanism for the most salient elements of an individual‘s personality (Judge, Bono, Ilies, & Gerhardt, 2002). Conscientiousness is the personality dimension primarily responsible for organizing and directing individual behavior, and conscientious individuals may be characterized as responsible, diligent, persevering and thorough (Digman and Takemoto-Chock, 1981).

Wells (2003) conducted a series of interviews with successful fraud examiners and found that these individuals exhibited a cluster of common traits including perseverance, diligence and integrity each of which is an attribute of the conscientiousness dimension.

Within the context of the five factor model, only conscientiousness has been found to reliably predict job performance across all occupational groups (Robertson 2000). Indeed, some studies have demonstrated that conscientiousness correlates with task performance just as strongly as cognitive ability (Alonso, 2000). Previous research has demonstrated a linkage between conscientiousness and task performance, and the linkage has been shown to be stable across time (Barrick 1993). Conscientiousness can affect job performance in a number of ways. Conscientious employees are generally more reliable, more motivated, and harder working; they are also likely to devote more energy to the task at hand and spend less time daydreaming (Viswesvaran, 2006).

This results in greater assimilation of task related knowledge, leading to greater productivity (Ones and Viswesvaran, 2006). Conscientious individuals would be expected to pay more attention to detail and profit more from vicarious learning, thus gaining enhanced job knowledge and being more productive (Bandura, 1977; Viswesvaran, 2006). These assertions were confirmed by Colquitt (2000) who showed that conscientiousness was highly correlated with motivation to learn and by Borman (1991) who demonstrated a positive association with job knowledge.

From the figure below, Fig 2.1, it can be deduced that auditor's independence, professional competence of an auditor and audit check has an effect on financial performance.



Independent Variable **Dependent Variables**

Figure 2.1 Conceptual Model

Source: Researcher Pilot Study (2020)

2.3 Review of Empirical Studies

J. Nnam Ima (2015), examined the internal audit activities in some Nigerian firms. Generally internal control being an integral part of corporate governance has faced a lot of regulatory reforms due to the corporate scandals and financial crisis in the economic environment. Regulators have been faced with increased disclosure requirement. Nigeria has continually been faced with high level of financial loss due to fraudulent practices. Specifically, the study looks at internal audit, as an important aspect of internal control to examine if there is a positive and significant relationship between its effectiveness and fraud prevention. The study adopted the analytical survey method together information on internal audit activities from our sample. The population comprised of senior management and staff of internal control department of firms listed on the Nigerian stock exchange. Using judgment, 2 senior management staff and 4 staff of internal control department of firms listed on the stock exchange that are been audited by the big four audit firms were chosen for the sample. Data collection was by means of the questionnaire with response options graduated into five like scale designed to capture information on internal audit processes in the organization. Logistic regression analysis was used to test the hypothesis and the result showed that a positive and significant relationship existed between the internal audit practices and fraud deterrence. The study provides an insight into internal audit activities in Nigerian firms. The internal audit practice in most Nigerian organizations is not commendable. Therefore we recommend a more vibrant internal audit through establishment of a vibrant internal audit department, ensuring independence of the internal audit unit, attention paid to internal auditors report and recommendation and regular evaluation of the effectiveness of the internal audit unit.

Shandia (2004), states that internal audit is an independent, objective assurance and consulting activity designed to add value and improve an organizations operations. It helps an organization to accomplish its objectives by bringing a systematic disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes. The definition recognizes two roles for Internal auditing, namely: to provide an independent assurance service to the board, audit committee and management, focusing on reviewing the effectiveness of the governance, risk management and control processes that management has put in place; and to provide advice to management on governance risks and controls.

Bariyima (2012), examined the relationship between internal audit and the financial performance of government enterprises. The study adopted a nomothetic methodology (quantitative approach). Data were collected from key informants using a research instrument. Employing the Statistical Package for Social Sciences (SPSS) Version 13.0, returned instruments were analyzed using frequency tables, Pearson's and Stepwise Regression Method. The study found no strong association between internal auditing practices and financial performance of GOCs and political influences do not significantly impact this relationship. The weak association between internal auditing practices and financial performance is attributed to these enterprises' inadequacy and poor implementation of internal auditing practices. Where internal auditing is de-emphasized it cannot impact positively on performance. The paper recommends the need for the establishment of an Audit Department where it is non-existent, taking into consideration the size of the Enterprise as well as the strengthening of the Department by according it the necessary Professional independence and employing adequate number of experienced and qualified staff.

Udeh, S. N. & Eugene O. N. (2015) examined the effectiveness of internal audit in the Nigerian Public Sector. It had 3 specific objectives, 3 research questions and 3 hypotheses. Simple random sampling technique was used to select 4 of the Federal Government Parastatal located in Enugu State of Nigeria. A study population of 182 made up of 127 accountants and 55 internal auditors in the Parastatals was utilized. A self – structured questionnaire, using a four-point modified Likert a scale was the instrument for data collection. 168 respondents that correctly completed and returned their questionnaire formed the sample size for the study. While mean was employed in data analysis chi-square was used to test the postulated hypothesis. The study found, among other things, that in spite of availability of adequate punishments, they were not effectively applied across boards for violations of internal audit procedures. It concluded that efforts should be geared towards updating the knowledge of internal auditors rather than engaging in interminable search for error-proof internal audit procedures. The paper recommended a thorough and transparent recruitment process for internal audits.

Mutua (2012) researched on impact of risk based audit on financial performance of commercial banks in Kenya. Although her study concentrated on risk based audit she acknowledged that financial performance requires appropriate effective and efficient internal audit. From the findings, the study concluded that risk based auditing through internal auditing standards and internal auditing staffing should be enhanced to enable firms to be able to detect risks on time and concentrate on high risk areas leading to increased transparency and accountability, hence enhancing financial performance. This showed that there is indeed a relationship between internal audit and financial performance.

Mawanda (2008) conducted a research on effects of internal control systems on financial performance in institution of higher learning Uganda. In his study he investigated and sought to establish the relationship between internal control systems and financial performance in an Institution of higher learning in Uganda. Internal controls were looked at from the perspective of Control Environment, Internal Audit and Control Activities whereas Financial performance focused on Liquidity, Accountability and Reporting as the measures of Financial performance. The Researcher set out to establish the causes of persistent poor financial performance from the perspective of internal controls. The study established a significant relationship between internal control system and financial performance. The investigation recommends competence profiling in the Internal Audit department which should be based on what the University expects the internal audit to do and what appropriate number staff would be required to do this job. The study therefore acknowledged role of internal audit department to establish internal controls which have an effect on the financial performance of organizations.

2.4 Gaps in the Literature

The review of literature on the findings of the research work evaluated showed that adequate research was not done in the some areas. The literatures reviewed looked at the efficiency of audit on the performance of companies. No significant emphasis has however been placed on effectiveness of internal audit on the financial performance of pharmaceutical manufacturing companies in Ghana.

CHAPTER THREE

METHODOLOGY

3.0 Introduction

This chapter sets out various stages and phases that were followed in completing the study. It involved a blueprint for the collection, measurement and analysis of data. Specifically the following sub-sections were included; research design, target population, data collection instruments, data collection procedures and finally data analysis.

3.1 Study Area

The global view of this research work is manufacturing industry in Ghana. The area is too large to manage and as a result, a case study of Archdiocesan health pharmaceutical manufacturing firm was used. The research was carried out in Kumasi.

3.2 Research Design

A research design is a blueprint or scheme that is used by the researcher for specific structure and strategy in investigating the relationships that exist among variables of the so as to enable the researcher to collect the data which will be used for the study. It is the framework designed to seek answers to research questions.

The type of research design adopted for the purpose of this study was the survey design. The design was used to examine internal audit effectiveness in improving the financial performance of a company using the pharmaceutical manufacturing industry of Ghana. The survey research made use of Archdiocesan Health Pharmaceutical Company as representative of the pharmaceutical manufacturing industry.

3.3 Population of the Study

A population is made up of a specific conceivable trait, event, element, people, subject or observation, which relates to the situation of interest in the study to be conducted. In order to avoid the inclusion of irrelevant elements, a well-defined population is needed. This survey research was drawn on multiple sources of data and focused on the pharmaceutical sector of the Manufacturing Industry which consists. Management constitutes 40% of the respondents, staff of Internal Audit 20% and Account Department 40%.

3.4 Sampling Representatives

A sampling unit is one of the units into which an aggregate is divided for the purpose of sampling, each unit being regarded as individual and indivisible when the selection is made. Out of the number of pharmaceutical companies. This company comprises the sampling unit of this research project. Due to the difficulty of covering all the companies existing in manufacturing sector, the researcher obliged to minimize its study area by focusing only on two purposively selected manufacturing companies that are expected to be used as a representative of other sectors.

These companies were selected purposively, because the use of purposive sampling enables the researcher to generate meaningful insights that help to gain a deeper understanding of the research phenomena by selecting the most informative participants that is satisfactory to its specific needs.

3.5 Sampling Technique

A sampling technique is the name or other identification of the specific process by which the entities of the sample have been selected. For the purpose of this research the purposive sampling method was used to select the sample. The purposive sampling method is also referred to as judgmental sampling is a non-probability sampling method

3.6 Sample Size Determination

There are approximately 250 employees in Kumasi and 4200 in the entire country as at 2020. To determine the sample size the Yaro Yamani’s formula was used.

$$n = \frac{N}{1 + N(e)^2}$$

Where n= Desired sample size

N= Size of population

e= limit of error tolerance which was assured to be 9% (0.09) confidence limit

$$n = \frac{4200}{1 + 4200(0.09)^2}$$

$$n = \frac{4200}{1 + 4200\ (0.0081)}$$

$$n = \frac{4200}{1 + 34}$$

$$n = \frac{4200}{35}$$

n=120

3.7 Data Collection Techniques

3.7.1 Primary data

Primary data can be defined as data collected by the user(s) for the purpose of an enquiry or research. The primary data used in this approach was obtained from a sample drawn from the staff of some selected manufacturing firm. All these were done through the questionnaire distributed to the top management of the organization. The questionnaires were carefully framed and administered to a sample of respondents in the manufacturing companies selected. The questions in the questionnaire were straight forward and close ended questions. This is directed at achieving a more balanced research result and conclusion.

3.7.2 Data Collection Instrument

The questionnaire was a major research instrument used for the purpose of this work. A questionnaire is a research instrument consisting of a series of questions and other prompts for the purpose of gathering information from respondents. A questionnaire is a compilation of questions given to certain individuals (respondents) to give their opinions about a particular topic of reference. The questionnaires designed were a combination of structured questions. The questionnaires were used to seek information about how accounting information helps top management in making decisions. The questions asked in the questionnaire were well structured so as to be relevant to the researcher. The questionnaire employed the 5 point-Likert scale using the following scale: Strongly Agree-5, Agree-4, Fairly Agree-3, Disagree-2 and Strongly Disagree-1. It was also divided into the following sections

1. **Section A:** Bio data on respondents
2. **Section B:** Auditors Independence
3. **Section C:** Professional Competence
4. **Section D:** Audit Check
5. **Section E:** Financial Performance

3.8 Data Administration

The questionnaires were administered to 120 individuals and 100 were retrieved. The questionnaires so designed were administered to the staff of the Archdiocesan pharmaceutical. The percentage of retrieved questionnaires administered respondent was 84%.

3.9 Reliability and Validity Test

Validity refers to the degree with which a research instrument measures what it purports to measures as well as the population it is intended for.

Construct validity: This is all about defining correct operational measures for the concepts being studied. This can be done by finding multiple sources of evidence and thus establishing chains of proof while gathering data. In this study the theoretical information has been collected by comparing it with different sources such as books, articles and the Internet. These information been contrasted further with the empirical data gained in a questionnaire.

Face validity: Face validity has been verified through experts with experience and knowledge in accounting and methodology of scientific research to take advantage of their expertise and their stocks of knowledge, making the tool more accurate and objective measurement. The purpose behind questionnaire was to verify the affiliation of paragraphs to the variables of the model, and the paragraphs language formulation accuracy. It has been taking into account all the observations of experts and referees, so that the questionnaire was prepared in its final form contained in Appendix

Content validity: Content validity addresses the question whether the full content of a construct is represented in the measure or are some dimensions left out.

3.10 Method of Data Analysis/Statistical Tools

The data were analyzed using the linear regression model with the aid of the Statistical Package for Social Sciences (SPSS). Linear regression is an approach for modelling the relationship between a scalar dependent variable (Y) and one or more independent variables (X). One benefit of using this is that it can indicate if an independent variable has a significant relationship with a dependent variable.

3.11 Model Specification

Y =f(X)………………………………….. (1)

Y = Dependent Variable

X = Independent Variable

FPR= f (IAE)

Where: FPR = Financial Performance

IAE = Internal Audit Effectiveness

Y = Financial Performance

And X = (x_1, x_2, x_3,)

Where:

X = Internal Audit Effectiveness (IAE)

x_1 = Auditors Independence (AI)

x_2 = Professional Competence (PC)

x_3 = Audit Check (AC)

Functional Relationship

PER = F (AI, AC, PC) (2)

PER= $e_1 + \beta_1 AI + \beta_2 AC + \beta_3 PC + \mu_e$ (3)

e_1= Constant

$\beta_1, \beta_2, \beta_3$=Model Coefficient

μ_e= Error term

3.12 Expected Result

It is expected that internal audit effectiveness will have a positive impact on the financial performance of companies in the manufacturing sector.

3.13 Data Analysis

The study design adopts the single method and therefore quantitative data collection techniques. The deductive- approach was applied in the data analysis. Under this method, hypothesis generated from the study objectives were expressed in operational terms and tested. Computer software such as Microsoft excel spread sheet was used to analyses the data, and chart generated to explain the quantitative data. and chart were used to display the result of the study to ensure maximum clarity and objectivity. Furthermore, analyses of descriptive information from the field group discussion were made to obtain further confirmation of the findings made.

3.14 Ethical Considerations

The researcher ensured that information received from respondents were treated with a high level of care and confidentiality.

CHAPTER FOUR

DATA PRESENTATION AND ANALYSIS

4.0 Introduction

This section presents the properties of the data used for this study in order to understand the variables as well as the suitability for this study. It will assist in drawing inference under the test of hypothesis.

4.1 Demographic Data

This section considers the peculiarity of each respondent in terms of age, sex, marital status. The frequency and percentage are given below.

Table 4.1 Demographic Data

Sex	**Frequency**	**Percent (%)**
Male	61	61.0
Female	39	39.0
Total	**100**	**100.0**
Marital Status		
Single	40	40.0
Married	60	60.0
Total	**100**	**100.0**
Age		
18-25	24	24.0
26-35	33	33.0
35 years above	43	43
Total	**100**	**100.0**
Length of Service		
1-10	61	61.0
11-20	33	33.0
21-30	6	6.0
Total	**100**	**100.0**
Educational Qualification		

OND/NCE	15	15.0
B.Sc./BA/HND	25	25.0
MBA/M.Sc.	41	41.0
Others	19	19.0
Total	**100**	**100.0**
Position of Respondents		
Junior Staff	21	21.0
Accountant/Auditor	26	26.0
senior Staff	32	32.0
Management Staff	21	21.0
Total	**100**	**100.0**

Source: Authors Computation (2017)

The above table shows the descriptive statistics of the respondent demographic data. It was discovered that most of the respondents are male, with 61% been male and 39% been female which implies that more than average of the respondents in this study are men, while 60% of the respondent are married. Among the respondents, 43% are 36 years and above, 33% are between the age of 26 years to 35years, while the remainders are below 26 years, implying that most of the respondents are matured and can be said to be responsible given their age and marital status. Furthermore, 61% have only worked for 1-10 years, 33% have served for 11-20 years while 6% have served beyond 20 years.

In terms of the educational qualification of the respondents, 15% were privileged to obtain OND/DBS, 25% have B.Sc./HND degree while a large proportion (41%) have second degree and 19 % have other degree. Similarly, 21% of the respondents are management staffs, 32% are senior staffs, 26% are accountants and auditors while 21% are junior staffs. This implies that in the firm sampled, majority of the respondents are senior staff, suggesting that the have quality experience for audit and professional excellence.

SECTION B: Questions Relating to Internal Audit Effectiveness and Financial Performance

4.1.1 Auditors Independence and Financial Performance

Table 4.2 Auditors Independence

	SA (%)	**A (**%)	**U (**%)	**D (**%)	**SD (**%)
Auditor's independence is necessary for the effective achievement of the function and objective of internal audit.	83(83%)	15(15%)	2(2%)	-	-
Auditor's independence is the basis of auditing.	43(43%)	48(48%)	6(6%)	2(2%0	1(1%)
Acceptance of gifts items by professional auditors affects the integrity of financial performance.	48(48%)	14(14%)	12(%)	18(18 %)	7(7%)
Every company should have a formalised principle of internal audit providing for its position and powers in the framework of the company.	52(52%)	43(43%0	4**(**4%)	-	1**(1**%)
An internal auditor must be independent of both the personnel and operational activities of the organization	58(58%)	22(22%)	16(16%)	3(2%)	1(1%)

Source: Authors Computation (2017)

The questions relating to auditors independence are analysed in table 4.2. It was revealed that 83% strongly agreed that Auditor's independence is necessary for the effective achievement of the function and objective of internal audit while 2% were undecided. 48% further agreed that auditor's independence is the basis of auditing, while 2% disagreed. It has further revealed that 48% strongly agreed that accepting of gifts items by professional auditors affects the integrity of financial performance, 18% disagreed while 7% strongly disagreed.

Furthermore, 52% of the respondents strongly agreed that every company should have a formalised principle of internal audit providing for its position and powers in the framework of the company, 4% were undecided, while 1% strongly disagreed to this. It has also discovered that 58% strongly agreed that An internal auditor must be independent of both the personnel and operational activities of the organization, 22% agreed, 16% were undecided, 3% disagreed while 0nly 1% strongly disagreed to this. This suggests that most of the respondents agreed to auditor's independence as a prerequisite to firm's performance.

4.1.2 Professional Competence and Financial Performance

Table 4.3 Professional Competence

	SA (%)	A (%)	U (%)	D (%)	SD (%)
The internal audit staff and their skills should match the scope of the company's internal operations.	69(69%)	24(24%)	6(6%)	1(1%)	-
Financial statement disclosure is affected by the professional competence of the auditors	36(36%)	54(54%)	9(9%)	-	1(1%)
Measures that can enhance the	54(54%)	34(34%)	6(6%)	3(3%)	3(3%)

efficacy of auditors are important for effective fraud detection.					
Internal audit staff should adopt professional and ethical standard at all time.	44(44%)	41(41%)	7(7%)	3(3%)	5(5%)
The auditors in my company are qualified to undertake audit function.	49(49%	33(33%)	10(10%)	3(3%)	5(5%)

Source: Authors Computation (2020)

In a similar manner, table 4.3 analyses the professional competence auditors. It was discovered that 69% strongly agreed, 24% agreed, 6% were undecided and 1% disagreed that internal audit staff and their skills should match the scope of the company's internal operations. 54% agreed that financial statement disclosure is affected by the professional competence of the auditors, 1% disagreed while 9% were undecided. More than 50% of the respondents strongly agreed that measures that can enhance the efficacy of auditors are important for effective fraud detection while 6% were undecided, 3% disagreed and strongly disagreed.

Conversely, it was grossly agreed that internal audit staff should adopt professional and ethical standard at all time while about 8% do not support that. Nonetheless, 49% strongly agreed while 33% agreed that the auditors in the company sampled are qualified to undertake audit function, 3% disagreed and 5% strongly disagreed to it.

4.1.3 Audit Check and Financial Performance

Table 4.4 Audit Check

	SA	**A**	**U**	**D**	**SD**
Control audit in the company have features built into them to ensure that fraudulent transactions are flagged.	63(63%)	24(24%)	6(6%)	6(6%)	1(1%)
Internal audit in organisations acknowledges that every organisation should have an internal audit department with regard to the volume and nature of its activities.	40(40%)	52(52%)	7(7%)	-	1(1%)
The objectives and scope of the internal audit must be clearly stated by the company.	53(53%)	29(29%)	12(12%)	2(2%)	4(4%)
All financial reports must pass through the auditor before been published.	44(44%)	33(33%)	16(16%)	6(6%)	1(1%)
In organisations frauds are identified by the internal audit function.	47(47%)	32(32%)	8(8%)	7(7%)	6(6%)

Source: Authors Computation (2020)

Table 4.4 above gives a description on the audit check present in the firm sampled. While 63% strongly agreed that Control audit in the company have features built into them to ensure that fraudulent transactions are flagged, 6% disagreed. Furthermore, 52% agreed that every organisation should have an internal audit department irrespective of the volume and nature of its activities while only 1% strongly disagreed to it. 53% strongly agreed that the objectives and scope of the internal audit must be clearly stated by the company, 29% agreed, 12% were undecided, 2% disagreed and 4% strongly disagreed.

Similarly, 33% agreed and 44% strongly agreed that all financial reports must pass through the auditor before been published, 6% disagreed and 1% strongly disagreed. Also, 47% strongly agreed that in organisations frauds are identified by the internal audit function, 33% agreed, 16% were undecided, 6% disagreed and 1% strongly disagreed.

4.1.4 Internal Audit Effectiveness and Financial Performance

Table 4.5: Financial Performance

	SA	**A**	**U**	**D**	**SD**
Auditors engaging in insider dealings tend to compromise the integrity of the financial performance.	57(57%)	13(13%)	11(11%)	19(19%)	-
Non-disclosure of material facts in the financial statement affects the quality of the financial report.	24(24%)	59(59%)	9(9%)	5(5%)	3(3%)
The quality of the financial performance may sometimes be affected by the situational factors surrounding the auditor.	52(52%)	23(23%)	13(13%)	8(8%)	4(4%)
Professional auditors are always objective in the evaluation of financial performance.	43(43%)	39(39%)	12(12%)	3(3%)	3(3%)
Fraud detection and fraudulent activities are inherently unpredictable and difficult to detect and they affect the financial performance of the organisation.	64(64%)	20(20%)	7(7%)	4(4%)	5(5%)

Source: Authors Computation (2020)

In terms of financial performance, 57% strongly agreed that auditors engaging in insider dealings tend to compromise the integrity of the financial performance, 19% disagreed to the fact, 13% agreed to this while 11% were undecided. In terms of Non-disclosure of material facts in the financial statement affecting the quality of the financial report, 59% agreed to this, 24% strongly agreed, 9% were undecided, 5% disagreed while 3% strongly disagreed.

Furthermore, 52% strongly agreed that the quality of the financial performance may sometimes be affected by the situational factors surrounding the auditor, 23% agreed, 13% were undecided, 8% and 4% disagreed and strongly disagreed respectively. It was also depicted on table 4.5 that 43% strongly agreed that professional auditors are always objective in the evaluation of financial performance, 39% agreed to the fact, 12% were undecided, while 3% both disagreed and strongly disagreed. It was also discovered that 64% strongly agreed that fraud detection and fraudulent activities are inherently unpredictable and difficult to detect and they affect the financial performance of the organization, 7% were undecided, while 5% strongly disagreed.

4.2 Hypothesis Testing

4.2.1 Hypothesis One

H0: There is no significant relationship between the contributions of auditor's independence and the financial performance of the company.

H1: There is a significant relationship between the contributions of auditor's independence and the financial performance of the company.

Table 4.6: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.171[a]	.029	.019	.58671

Table 4.7: ANOVAa

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	1.016	1	1.016	2.952	.089[b]
	Residual	33.734	98	.344		
	Total	34.750	99			

Table 4.8: Coefficientsa

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	3.063	.624		4.908	.000
	AI	.246	.143	.171	1.718	.089

The above analysis was conducted to assess whether a significant relationship exist between the contributions of auditor's independence and the financial performance. The model constant terms gives positive value of 3.063 as the value for the intercept of the model which is significant at 1%. Furthermore the coefficient of audit independence (AI) is 0.171 (Table 4.8). This implies that a positive relationship exists between auditor's independence and the financial performance meaning that the more auditors are independent, the more the financial performance of the firm. The coefficient is also found to be statistically significant as evidenced by an examination of the prob. value (0.089).

The R-Squared of the model is 0.171 showing that the explanatory variables explain about 17% of changes in the dependent variable (Table 4.6). This means that in this study, the auditor's independence alone is quite weak in explaining the level of financial performance of the firm sampled. The F-statistic which measures the joint statistical influence of the explanatory variables in explaining the dependent variable was found to be statistically significant at 10 percent level. The F-statistic figure of 1.95 shows that auditors' independence has effect on financial performance of firms (Table 4.7). Given this, the study rejects the null hypothesis which states that there is no significant relationship between the contributions of auditor's independence and the financial performance of the company.

4.2.2 Hypothesis Two

H0: There is no significant relationship between the Professional Competence of an auditor and the financial performance of a company

H1: There is a significant relationship between the Professional Competence of an auditor and **the financial performance of a company**

Table 4.9: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.346[a]	.120	.111	.55873

Table 4.10: ANOVAa

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	4.156	1	4.156	13.313	.000[b]
	Residual	30.594	98	.312		
	Total	34.750	99			

a. Dependent Variable: FP

b. Predictors: (Constant), PC

Table 4.11: Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	2.584	.427		6.044	.000
	PC	.359	.098	.346	3.649	.000

The above analysis was conducted to assess whether professional competence of an auditor have significant effect on the financial performance of a company. The model constant terms gives positive value of 2.584 as the value for the intercept of the model which is significant at 1%. Furthermore the coefficient of professional competence (PC) is 0.346 (Table 4.11). This implies that a positive relationship exists between professional competence of auditors and the financial performance. This suggest that the more competent an auditor is, the more the financial performance of the firm which is also found to be statistically significant as evidenced by an examination of the prob. value (0.000).

The R-Squared of the model is 0.346 showing that the explanatory variables explain about 34% of changes in the dependent variable (Table 4.9). This means that in this study, the auditor's professional competence is quite weak in explaining the level of financial performance of the firm sampled. However, the F-statistic which measures the joint statistical influence of the explanatory variables in explaining the dependent variable was found to be statistically significant at 0.05 percent level. The F-statistic figure of 13.3 shows that auditor's professional competence have a positive significant effect on financial performance of firms (Table 4.10). Thus, this study rejects the null hypothesis which states that there is no significant relationship between the Professional Competence of an auditor and the financial performance of a company.

4.2.3 Hypothesis Three

Ho: There is no significant relationship between audit Checks and the Financial Performance of a Company.

H1: There is a significant relationship between audit Checks and the Financial Performance of a Company.

Table 4.12: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.364[a]	.132	.123	.55473

Table 4.13: ANOVAa

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	4.593	1	4.593	14.925	.000b
	Residual	30.157	98	.308		
	Total	34.750	99			

a. Dependent Variable: FP

b. Predictors: (Constant), AC

Table 4.14: Coefficientsa

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	2.567	.408		6.283	.000
	AC	.369	.096	.364	3.863	.000

a. Dependent Variable: FP

To analyse the third objective, the above analysis was conducted. The model constant terms gives positive value of 2.567 as the value for the intercept of the model which is significant at 1%. Furthermore the coefficient of Audit check (PC) is 0.364. This implies that a positive relationship exists between audit check and the financial performance. This suggest that an increase in the efficiency of audit through thorough checks the more the financial performance of the firm which is also found to be statistically significant as evidenced by an examination of the prob. value (0.000).

Similarly, The R-Squared of the model is 0.132 showing that the explanatory variables explain about 13% of changes in the dependent variable. This means that in this study, about 87% of the changes in financial performance is affected by other factors not considered in the study. However, the F-statistic which measures the joint statistical influence of the explanatory variables in explaining the dependent variable was found to be statistically significant at 1% percent level, implying that audit check has a positive significant effect on financial performance of the firm. Thus, this study rejects the null hypothesis which states that there is no significant relationship between audit Checks and the Financial Performance of a Company.

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS

5.0 Introduction

The focus of this chapter is to discuss the findings, the conclusion reached in the study and make recommendations based on research objectives and the overall perspective of the main findings.

5.1 Summary

The primary purpose of this research was to investigate and determine the Internal Audit Effectiveness on the Financial Performance of a Manufacturing Company. Chapter one focuses on the background to the study, statement of the problem, objective of the study, research questions, scope and limitations of the study, significance of the study, justification of the study and definition of key terms.

In Chapter two, literature was reviewed along the line of theoretical framework, conceptual framework and empirical framework. The theoretical framework dealt with relevant theories associated with the variables of the research work, the conceptual framework identified and discussed the concepts of the study and the empirical framework dealt with review of literature on the variables of the studies.

Chapter three deals with research design adopted, study area, population, sample representatives, sampling techniques, data collection techniques, etc. The study population of this work comprised of a strong pharmaceutical manufacturing company in Ghana. The sample size of 120 with error limit of 9% was considered appropriate for this study. A total number of 120 copies of the questionnaires were distributed. Out of the 120 copies of questionnaires sent out to various respondents, only 100 were duly completed and returned and all were used in the analysis. Sampling technique adopted was the purposive sampling technique.

Chapter four discusses data analysis, presentation and interpretation. The hypotheses were tested and results presented.

Chapter five summarizes the theoretical and empirical findings of the study. It also includes conclusions, recommendations, and the suggestions for further studies and contribution to knowledge.

The major findings from the empirical analysis are;

1. The internal audit effectiveness has a positive effect on the financial performance of a manufacturing company.
2. There is a positive significant relationship between the auditor's independence and the financial performance of a manufacturing company.
3. There is a positive significant relationship between the professional competence of auditors and the financial performance of a manufacturing company.
4. There is a positive significant relationship between audit checks and the financial performance of a manufacturing company.

5.2 Conclusion

This research studied the impact of internal audit effectiveness on the financial performance of a manufacturing company. From the findings, it was concluded that firms that have independent auditors have over 17% improvement on the financial performance than firms that do not have, but is quite weak if used alone to measure the financial performance. A positive relationship between auditor independence and financial performance implies that audit effort increases with the amount of audit fees paid and leads to more commitment and monitoring on the part of the of the auditors, thereby decreasing the propensity of an organization to incur losses through non-adherence to accounting principles and unnecessary waste of funds by management.

From the findings, the more the competence of an auditor, the more the improvement 34% is on the financial performance of a firm, but it is alone quite weak in explaining the level of the financial performance of a firms.

From the findings, it was concluded that firms that conduct audit checks have a 13% increased advantage over firms that do not, but audit check alone is not sufficient and quite weak to explain the level of the financial performance of the firm.
From the study, it is concluded that internal audit effectiveness has a positive impact on the financial performance of firms

5.3 Recommendations

Having carried out a successful survey and analyzed the findings in the work, the following are the recommendations which may be of benefit to the management of various firms:

1. Management of corporate, companies, firms in Ghana can improve the financial performance of their firms by increasing the amount of audit fees paid to the audit firm of their respective organizations. Although, this might seem like a profit reducing decision in the short run, the benefits that will accrue to the firm far outweighs the cost. This will help ensure that all financial transactions are in order; give the users of the financial statements more trust and confidence in terms of the quality of audited reports.
2. Due to the importance of effective fraud detection, professionalism of an auditor should be checked by the management of firms. They should develop

and organize constant seminars and workshops to train and educate auditors and accountant on matters pertaining proper implementation of accounting policies and procedures to enhance their skills and expertise in their practice as professionals.

3. Management should establish and implement periodic review of internal audit performance to ensure that its performance and value to the Institution is maximized and to ensure compliance with appropriate standards and guidance. There should be proper check and balances in all financial transactions and also they should review their financial statement periodically and ensure that finance is used for the purpose in which they are meant for.

5.4 Suggestions for Further Studies

1. This study only examines Archdiocesan health pharmaceutical manufacturing industry. Future research could examine the impact of internal audit effectiveness and the financial performance of other manufacturing companies. The impact of internal audit effectiveness on the financial performance can also be evaluated in other sectors of the economy.
2. Further study should be done on the impact of internal audit and the organizational performance.
3. Further study can be done into the relationship between external audit and the financial and organizational performance of a firm.

5.5 Contribution to Knowledge

This work investigated the internal audit effectiveness on the financial performance with the use of auditor’s independence, professional competence of an auditor and audit checks. The following are the contribution to knowledge.

1. The research work analyzed the impact of internal audit effectiveness on the financial performance in the pharmaceutical manufacturing sector.
2. This research work has contributed enormously to knowledge; it has added more empirical literature to the impact of internal audit effectiveness and financial performance and has also introduced important insights from the accounting literature. It also contributes to knowledge in the area of auditor’s independence, professional competence and audit check.

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APPENDIX

QUESTIONNAIRE

We are students of Christian Service University College who are required to carry out a research on the topic **internal audit independence effectiveness as a tool for improving the financial performance, transparency and accountability of a corporate institution with a focus on pharmaceutical manufacturing industr**y. We would be grateful if you would spare me a bit of your time to please complete this questionnaire. Your responses will be presented with strict confidence and shall be used for academic purpose only.

INSTRUCTIONS

1. **Tick as appropriate.**
2. **The following should also be noted for sections B, C and D; Strongly Agree=SA, Agree=A, Undecided=U, Disagree=D, Strongly Disagree=SD**

SECTION A: BACKGROUND INFORMATION

1. Sex: Male ☐ Female ☐

2. Marital Status: Single ☐ Married ☐

3. Age: 18-25 ☐ 26-35 ☐ 36-45 ☐ 46 years above ☐

4. Length of Service: 1-10 ☐ 11-20 ☐ 21-30 ☐

5. Educational Qualification: SSCE/DBS ☐ B.Sc./B.A/HND ☐
   MBA/B.Sc. ☐ Professional/Others / Training ☐

6. Position of Respondent: Junior Staff ☐ Accountant/Auditor ☐
   Senior Staff ☐ Management Staff ☐

SECTION B: AUDITORS INDEPENDENCE

S/N		SA	A	U	D	SD
1	Auditor’s independence is necessary for the effective achievement of the function and objective of internal audit.					
2	Auditor’s independence is the basis of auditing.					
3	Acceptance of gifts items by professional auditors affects the integrity of financial performance.					
4	Every company should have a formalised principle of internal audit providing for its position and powers in the framework of the company.					
5	An internal auditor must be independent of both the personnel and operational activities of the organization					

SECTION C: PROFESSIONAL COMPETENCE

S/N		SA	A	U	D	SD
1	The internal audit staff and their skills should match the scope of the company’s internal operations.					
2	Financial statement disclosure is affected by the professional competence of the auditors					
3	Measures that can enhance the efficacy of auditors are important for effective fraud detection.					
4	Internal audit staff should adopt professional and ethical standard at all time.					
5	The auditors in my company are qualified to undertake audit function.					

SECTION D: AUDIT CHECK

S/N		**SA**	**A**	**U**	**D**	**SD**
1	Control audit in the company have features built into them to ensure that fraudulent transactions are flagged.					
2	Internal audit in organisations acknowledges that every organisation should have an internal audit department with regard to the volume and nature of its activities.					
3	The objectives and scope of the internal audit must be clearly stated by the company.					
4	All financial reports must pass through the auditor before been published.					
5	In organisations frauds are identified by the internal audit function.					

SECTION E: FINANCIAL PERFORMANCE, TRANSPARENCY AND ACCOUNTABILITY

S/N		**SA**	**A**	**U**	**D**	**SD**
1	Auditors engaging in insider dealings tend to compromise the integrity of the financial performance.					
2	Non-disclosure of material facts in the financial statement affects the quality of the financial report.					
3	The quality of the financial performance may sometimes be affected by the situational factors surrounding the auditor.					
4	Professional auditors are always objective in the evaluation of financial performance.					
5	Fraud detection and fraudulent activities are inherently unpredictable and difficult to detect and they affect the financial performance of the organisation.					

SECTION F: MONITORING

Please, state your level of agreement with the following statements concerning the monitoring in the company. Therefore, you are to tick where appropriate, where (1) = Absolutely Disagree, (2)=Disagree, (3) Not sure, (4)= Agree and (5)= Absolutely agree

	STATEMENTS	**1**	**2**	**3**	**4**	**5**
1	Monitoring is important if the company is to achieve its set objectives.	[ ]	[ ]	[ ]	[ ]	[ ]
2	Monitoring has been built into the normal operating activities.	[ ]	[ ]	[ ]	[ ]	[ ]
3	Monitoring has been on a continuous basis.	[ ]	[ ]	[ ]	[ ]	[ ]
4	Monitoring helps to determine whether controls under the company.	[ ]	[ ]	[ ]	[ ]	[ ]
5	There are effective follow-up procedures to ensure that appropriate change or action occurs in response to changes in risks and control assessment.	[ ]	[ ]	[ ]	[ ]	[ ]
6	Monitoring covers the evaluation of the effectiveness of normal control in achieving set objectives.	[ ]	[ ]	[ ]	[ ]	[ ]
7	The company's management and board considers audit findings and recommendations and takes adequate actions.	[ ]	[ ]	[ ]	[ ]	[ ]

Any other comments (if any)

………………………………………………………………………………………………

Thank you