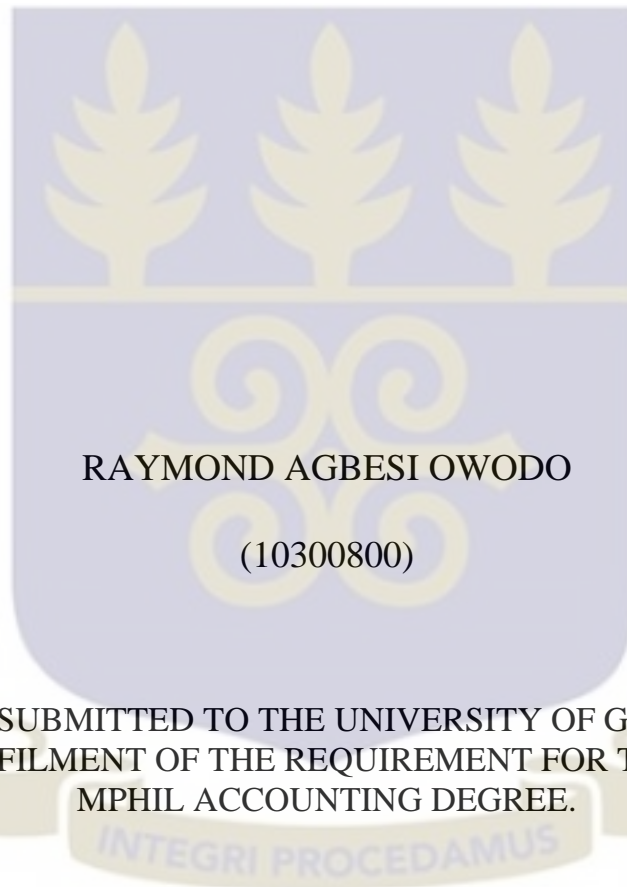


UNIVERSITY OF GHANA

AN ANALYSIS OF INTERNAL AUDIT EFFECTIVENESS IN STATE-
OWNED ENTERPRISES IN GHANA



THIS THESIS IS SUBMITTED TO THE UNIVERSITY OF GHANA, LEGON IN
PARTIAL FULFILMENT OF THE REQUIREMENT FOR THE AWARD OF
MPHIL ACCOUNTING DEGREE.

JULY, 2016

DECLARATION

I do hereby declare that this thesis is the result of my own research undertaken through continuous supervision and has not been submitted in part or in full to this institution or any other institution for an academic award. All citations and quotations have all been identified and acknowledged. I bear the ultimate responsibility for any shortcomings.

.....
RAYMOND AGBESI OWODO

.....
DATE



CERTIFICATION

We certify that this thesis was supervised in accordance with the laid down rules and procedures as required by the University of Ghana.

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DATE

(SUPERVISOR)

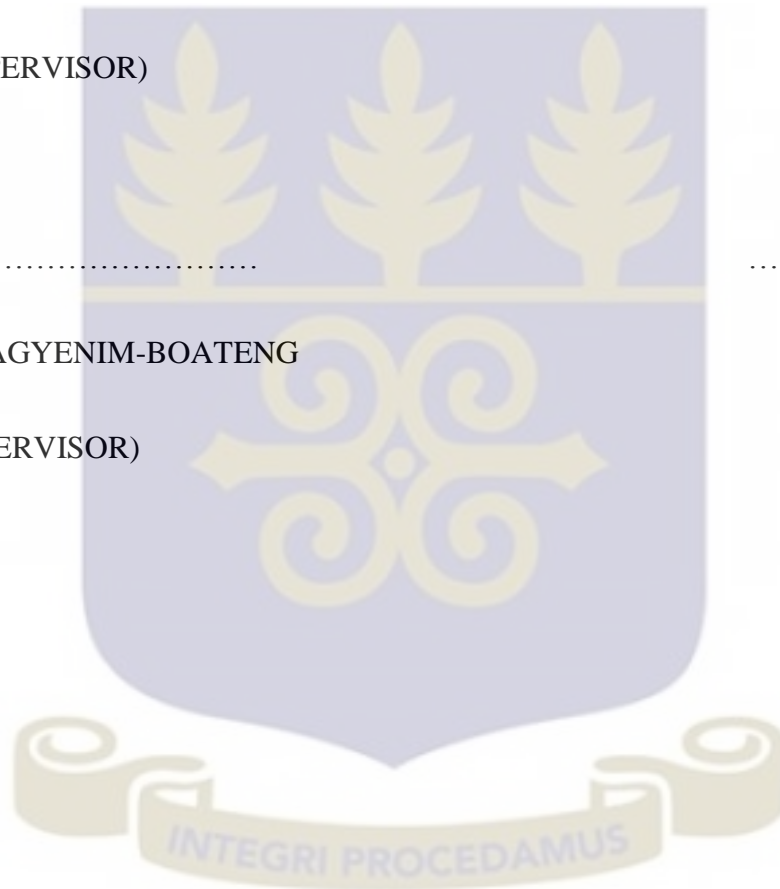
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DATE

(SUPERVISOR)



DEDICATION

This work is dedicated to my lovely parents, Mr. and Mrs. Shardey and my three sisters.



ACKNOWLEDGEMENT

My earnest gratefulness is to God Almighty and Our Lord Jesus Christ for His unfailing Love and Grace for me. All Glory and Praises to You, Lord!

I am grateful to my supervisors; Mr. James Otieku and Dr. Cletus Agyenim-Boateng for their instrumental support and pieces of advice which have brought me this far. I am really blessed to have both of you as my supervisors. May the Lord Jesus Christ keep you all for His second coming.

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LIST OF ABBREVIATIONS

AC:	Audit Committee
ACCA:	Association of Certified Chartered Accountants
ARIC:	Audit Recommendations and Implementation Committee
BRICS:	Brazil, Russia, India, China and South Africa
CIA:	Chief Internal Auditors
CIPFA:	Code of Practice for Internal Audit for Local Government for the UK
CISA:	Certified Information System Auditor
FAF:	Financial Audit Function
FIs:	Financial Institutions
GBEs:	Government Business Enterprises
GC:	Government Corporations
GCEs:	Government Controlled Enterprises
GDP:	Gross Domestic Product
GLCs:	Government-Linked Companies
IA:	Internal Audit
IAA:	Internal Audit Agency
IAFs:	Internal Audit Functions
IAMs:	Internal Audit Managers
IAUs:	Internal Audit Units
ICAG:	Institute of Chartered Accountants Ghana
IFAC:	International Federation of Accountants
IIA:	Institute of Internal Auditors
IMF:	International Monetary Fund
INTOSAI:	International Organisation of Supreme Audit Institutions

IPSAS:	International Public Sector Accounting Standards
IPSASB:	International Public Sector Accounting Standard Board
IT:	Information Technology
LDCs:	Least Developed Countries
MDAs:	Ministries Departments and Agencies
MMDAs:	Metropolitan, Municipal and District Assemblies
NGOs:	Non-Governmental Organisations
OAM:	Operational Audit Manager
OECD:	Organisation for Economic Co-operation and Development
PBEs:	Public Business Enterprises
PEs:	Public Enterprises
PFI:	Private Finance Initiative
PIS:	Public Institutional Systems
POs:	Parastatal Organisations
PPP:	Public Private Partnership
PS:	Public Service
PSUs:	Public Sector Units
PwC:	PricewaterhouseCoopers
SEC:	State Enterprises Commission
SOEs:	State Owned Enterprises
SUI:	Supreme Audit Institution
UN:	United Nations

ABSTRACT

This study analyses IA effectiveness in State-Owned Enterprises in Ghana using the institutional and resource-based theories. The role of internal auditors has extended to ensuring value creation for their respective organisations. This has attracted the attention of both academicians and practitioners to assess the effectiveness of internal audit functions (IAFs) in achieving their objectives. However, there is no harmony among researchers about the antecedents of IA effectiveness. It is also argued that there is no one theory that can best be relied upon in developing a universal theoretical framework for analysing IA effectiveness. This is partly due to the fact that IA effectiveness is contextually dependent. Thus, extant literature highlights the need for further studies in different contexts using suggested theoretical propositions. The study explores the internal and external factors that influence IA effectiveness. To achieve this, the study adopted the qualitative multiple case study approach. This approach was chosen because the contextual views of the respondents are critical in realising the objective of the study. The key source of data was an interview with the chief internal auditors and audit managers of the respective cases. The analysis of data involved the development of themes with reference to the theoretical framework adapted. The findings of the study revealed that, from the external environment, IA effectiveness is influenced by government laws and regulatory institutions through coercive isomorphism. Similarly, the expert power of professional bodies and consultants also influence IA effectiveness through normative isomorphism whiles mimetic isomorphism influence IA effectiveness when the IAFs of the SOEs in these cases copy the structure, processes and resource requirements of perceived best organisations in order to be seen as doing well. Moreover, the study found that organisational characteristics, departmental characteristics, employee characteristics and managerial practices are internal factors that influence IA effectiveness. Within these internal factors are issues like inadequate IAF staff size and resources availability, poor auditee relationships, poor top management supports and high political circumvention of internal controls especially during an election, which impedes IA effectiveness in these SOEs. Besides, there is a link between the internal and external factors in that the external factors also influence the internal factors. It is recommended that top managements of these SOEs must exert more attention to the resource needs of the IAFs so that they can render their required services to their respective organisations. It is also recommended that the Internal Audit Agency should step up its attentions to the IAFs of the various SOEs.

CHAPTER ONE: GENERAL INTRODUCTION

1.1 Introduction

This study analyses internal audit (IA) effectiveness in state- owned enterprises (SOEs) in Ghana. However, this chapter provides an introduction to the study. To achieve this, the chapter has been organised into seven sections. The first section presents the background of the study, the second presents the problem statement. The objectives of the study, research questions, significance of the study, an organisation of the study, as well as the chapter summary are presented in the third, fourth, fifth, sixth, and seventh sections respectively.

1.2 Background of the Study

This section provides the background of the study. It is intended to highlight the context for the study so that readers could appreciate the environment within which this study goes forth.

The effectiveness of internal audit function (IAF) has been the concern of many organisations as a result of the dynamic nature of the modern business environment. Modern businesses are confronted with pressures from socio-political factors, international regulations, professional standards and economic pressures. These environmental phenomena pose opportunities and threats to organisations (Hass, Abdsolmohammadi & Burnaby, 2006), depending on the strengths and weaknesses of their internal structures and functions (of which Internal Audit is a critical component). Consistently, Ahmad (2015) indicates that environmental changes and recent developments in governance requirements necessitated major transformations in IAFs with increased emphasis on internal audit (IA) effectiveness. In contemporary organisational situations, IA is a strategic corporate governance mechanism (Anderson, Christ, Johnstone & Rittenberg, 2010), and has encountered much expansions in its functions over the years as organisations become complex (Chambers & Odar, 2015). IA gained a global professional recognition in 1941 when the need for standardisation and development of a common body of

knowledge was acknowledged and this precipitated the establishment of the Institute of Internal Auditors (IIA) in New York by some groups of internal auditors (Papageorgiou, Yasseen, & Padia, 2012; Asare, 2009). Since then, IA has become a valuable element in the management of both public and the private sectors (Dittenhofer, 2001).

Consequently, these expansions in the scope of internal auditing functions initially reflected in the IIA (1999) revised definition of Internal auditing as follows:

“Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes”.

In addition, Code of Practice for Internal Audit for Local Government for the UK (CIPFA), (2006, p.2) defines internal audit to mean:

“An assurance function that provides an independent and objective opinion to the organisation on the control environment, by evaluating its effectiveness in achieving the organisation's objectives. It objectively examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper, economic, effective and efficient utilisation of resources”.

The above definitions suggest that IA is a value adding corporate management tool acting as a consultancy service to the organisation (Anderson & Svare, 2011; Onumah & Krah, 2012). Also, an effective internal auditing focuses on improving risk management, managerial control, and governance processes (Ahmad, 2015). In effect, an organisation's success is threatened if there is no effective IAF. Enyue (1997) emphasises this point by arguing that internal audit functions are not and cannot be substituted by government or public audit institutions thus must be continuously strengthened. This means that even though governments try as much as

possible to establish strong Internal Audit Agency (IAA), such agency, given its functions cannot prevent public enterprises from establishing an IA department. In Ghana, for instance, section 16 (1) of the Internal Audit Agency Act, 2003 (Act 658) indicates that “there shall be established in each MDA and MMDA an internal audit unit which shall constitute a part of the MDA or MMDA”.

IA is, therefore, useful for all types of organisations and much more in the public sector where objectives are difficult to measure. The literature points out that in the past, expectations for internal auditing in the public sector was narrower than in the private sector, however, internal auditing has become a critical component of public sector governance given its strategic dimension in contemporary management needs (Asare, 2009). Consistently, Barrett (2002) instigates that public sector reforms have significantly lessened the difference between the two sectors when looking at corporate governance in particular.

IA, therefore, has become the eye of top management following prominent corporate scandals and increased public sector corruption. This argument is reflected in the efforts by national governments in the enactment of laws and establishment of supervisory bodies that ensure the institutionalisation and operations of IAFs in the public sector. For instance, in 2003, the government of Ghana passed the Internal Audit Agency Act, 2003, Act 658 which provides the legal framework for the practice of IA in the Ghanaian public sector. But, currently, the argument has gone beyond just the establishment of IAFs to whether the IAFs are realising the objectives for which they exist. Thus, academicians and practitioners are concerned with IA effectiveness, not IA establishment.

1.3 Problem Statement

This section provides an overview of the issues that the study intends to address. It highlights the gaps identified during literature review and how those gaps link to practice.

IA effectiveness has been broadly discussed in existing literature over the periods primarily due to the increasing importance of the role internal auditors' play in achieving organisational goals. However, till date, there remains an unceasing call in extant literature for further studies on this important concept in other jurisdictions (e.g., Lenz & Hahn, 2015; Ahmad, 2015; Arena & Azzone, 2009; Cohen & Sayag, 2010; Mihret, James & Mula, 2010), since what is currently known is just the tip of an iceberg (Lenz, 2013), and there is no consensus in IA literature about the factors influencing IA effectiveness (Endaya & Hanefah, 2013). Whiles the private sector has received relatively higher attention in the subject matter (e.g., Arena & Azzone, 2009; Cohen & Sayag, 2010; George, Karagiorgos & Konstantinos, 2015; Hung & Han, 2012; Lenz & Saren, 2012; Sarens, Abdolmohammadi & Lenz, 2012), the public sector in particular remains an area with least attention, especially in developing countries (e.g., Alzeban & Gwilliam, 2014; Badara & Saidin, 2013; Soh & Martinov-Bennie, 2011; Ahmad, Othman, Othman & Jusoff, 2009). Consequently, there is a clarion call for additional studies in IA effectiveness with a focus on developing countries. The importance of context cannot be exaggerated when considering IA effectiveness. Consistent with this argument, extant literature posits that, at best, IA effectiveness is contextually dependent - meaning different thing to different people at different times and in different places (Endaya & Hanefah, 2013; Lenz & Hahn, 2015; Lenz, 2013). Similarly, Mihret et al. (2010) argued that the prevailing impetus in a particular IA setting influences IA effectiveness.

Moreover, the extant literature on IA effectiveness is concerned with the lack of a single theory that can be used to best develop a theoretical framework for evaluating IA effectiveness (Ahmad, 2015; Endaya & Hanefah, 2013). What is rather prevalent is a combination of two or

more theories to develop propositions (e.g. Endaya & Hanefah, 2013; Lenz & Hahn, 2015; Mihret et al., 2010; Ahmad, 2015) but no research has been carried out to test the validity of these propositions, though these researchers emphasised the need for validation of their respective propositions. Accordingly, there is the imperative need for a study that would test the validity of IA effectiveness propositions.

Hence, this study adopts the theoretical proposition by Ahmad (2015) which combines the institutional theory and resource-based theory to analyse IA effectiveness in state-owned enterprises (SOEs) in Ghana.

Carefully studying the adopted proposition and the review of extant literature, some few questions also come to mind. That is, whether there is a link between the internal and external factors that influence IA effectiveness. This is because, in Ahmad (2015), such issue has not been clearly addressed. Thus, in addition to the issues aforementioned, there is the need to establish whether there is a link between these two broad factors.

In order to fully address the concerns raised in this section, the study adopts a qualitative multiple case study. This methodological approach is chosen because there is the need to understand the contextual issues surrounding the practice of IA in the Ghanaian public sector and this requires that the inquirer captures the views and experiences of respondents.

1.4 Objectives of the Study

The objectives of the study precipitate from the theoretical framework adopted. With this background, the study shall analyse the internal and external factors that inform IA effectiveness in SOEs in Ghana.

Specific objectives are;

- ✓ To analyse the internal factors that influence IA effectiveness

- ✓ To analyse the external factors that influence IA effectiveness
- ✓ To determine how and why these factors are key to IA effectiveness
- ✓ To establish the link between the internal and external factors

1.5 Research Questions

In order to realise the objectives of the study, the following research questions are very relevant since a critical part of a research is the question being asked.

- 1) What are the internal and external factors that influence IA effectiveness?
- 2) How and why are these factors critical to IA effectiveness?
- 3) How do the internal and external factors link together?

1.6 Significance of the Study

It is expected that the study will contribute to knowledge and policy. The study will contribute to knowledge by providing additional evidence of the factors that influence IA effectiveness and also extend the application of the resource-based theory into IA literature. The study will contribute to policy by highlighting the substantial areas that policymakers must emphasise in ensuring IA effectiveness. It is expected that the regulatory bodies responsible for IA practices in the Ghanaian public sector, for instance, would be well informed by the findings of this study when evaluating the implications of certain actions they embark on. The findings of the study will also help in highlighting the strategic resources and capabilities that managers of these SOEs can focus on in order to make their respective IAFs effective.

1.7 Organisation of the Study

The study has been structured into six chapters. Chapter one highlights the general introduction to the study. Review of extant literature is presented in Chapter two. Chapter three contains a detailed outline of the methodological approaches of the study. The fourth chapter presents a review of the relevant theories in IA effectiveness research, leading to the theoretical

framework adopted for the study. Chapter five deals with the presentation, analysis and discussion of findings while the sixth chapter comprises the summary, conclusions and recommendations. The references and appendices follow this chapter.



CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This chapter examines the key issues in the literature that are relevant to the study and reviews the existing body of knowledge in the study area. It is intended to help the researcher to draw on ideas that would help in the analysis of findings. As such, the chapter reviews the literature on SOEs and relevant ongoing developments in the SOE sector, particularly in the context of internal auditing. This will help in the identification and selection of important players in the SOE sector for a possible interview (as the major means for data collection).

Additionally, the chapter presents an existing body of knowledge on the concepts that are associated with IA and IA effectiveness. Particular attention is also given to the factors that can influence IA effectiveness and the classification of these factors. An understanding of these factors and their further categorisation help to provide the link between the factors and their subsequent influence on the IA effectiveness.

In order to achieve the aforementioned, the chapter is organised as follows: in the next section, an overview of the public sector environment within which the SOE sector exists is discussed. The subsequent section provides a literature review on the concept and nature of SOEs in any political jurisdiction. The various ways of organising SOEs around the globe is highlighted as well as the relationships that exist in the SOE sector in the next chapter. Following this is a review of the body of knowledge on the concepts associated with IA function in the public sector. The second to last section presents a literature review on IA effectiveness while the final section presents a summary of the chapter.

2.2 Positioning SOE Sector in the Public Sector

Several attempts have been made in the literature to give an understanding of what public sector entails. These varied descriptions of the sector suggest that it is highly eclectic (Simpson, 2013). The continuous changes of the public sector necessitate the relevance of public administration, thus, the phrase governmental entities, public services and public administration are often synonymous to 'public sector' (Broadbent & Guthrie, 2008; Simpson, 2013).

In generic sense, some common features that characterises the public sector include the understanding of the nature of control or ownership, functions or purpose, existence of multiple principals, lack of competition, existence of multiple tasks and the existence of motivated agents (Broadbent & Guthrie, 2008; Koch & Hauknes, 2006; IMF, 2001; Dziobek, Lucio & Chan, 2013; Dexit, 2002; Frumkin & Galaskiewicz, 2004; Lienert, 2009; Broadbent & Guthrie, 1992). Another important characteristic is that the nature of products and services produced by the public sector organisations are non-rivalry and non-excludable (Koch & Hauknes, 2006). Frumkin and Galaskiewicz (2004) argued that the output or performance measurement of public sector entities is difficult to measure in the short run, also the sources of inflow of resources to these organisations differentiate them from their private counterparts.

In view of the above assessments, Broadbent and Guthrie (1992) indicates that it has become somewhat problematic in clearly identifying the public sector as a result of continuous structural alterations. Thus, the ambiguity associated with differentiating activities classified as a market from non-market activities create boundary problems both within the public sector and between the public and private sectors (Lienert, 2009). For instance, increased private sector and civil society organisations such as NGOs that provide public goods, increased outsourcing of public sector functions to the private sector and innovations such as public-private partnership (PPP) (Simpson, 2013). This view is clear because the continuous

privatisation and or corporatisation of state-owned enterprises that would have been classified under the public sector are wholly or partially moved to the private sector.

Consistent with this argument, Simpson (2013) indicates that contemporary developments in the public sector trigger challenges when relying on some of the abovementioned attributes in identifying the constituents of the public sector.

However, in attempting to describe the public sector, this study draws on some important definitions by international organisations, researchers and professional bodies that rely on legal frameworks, accounting standards and others are represented as follows. From the perspective of the IMF, the public sector “consists of all resident institutional units controlled directly, or indirectly, by resident government units; that is, all units of the general government sector and resident public corporations” (IMF, 2014; p.28) and International/multistate entities/partnership (IIA, 2011).

Furthermore, the IMF indicates that the public sector has two broad arms namely the general government and the public corporations (IMF, 2001; 2014). The definition given by the IMF has also been adopted by the International Public Sector Accounting Standard Board (IPSASB), (IFAC, 2010 cited in Simpson, 2013). The general government units comprise of the central government, state/ provincial/regional government, local government and not-for-profit public institutions. The central government is made up of ministries departments and agencies that have the overall political authority over the entire boundaries of a country (IMF, 2001; 2014). The state, region or province also described in other terms as cantons, republics, prefectures or administrative regions belongs to the broad geographical section by which a country as a whole is divided for the purposes of proper political administration (IMF, 2001; 2014). The local government is usually the smallest geographical areas that have restricted legislative, executive and judicial authority; largely dependent on central or state government

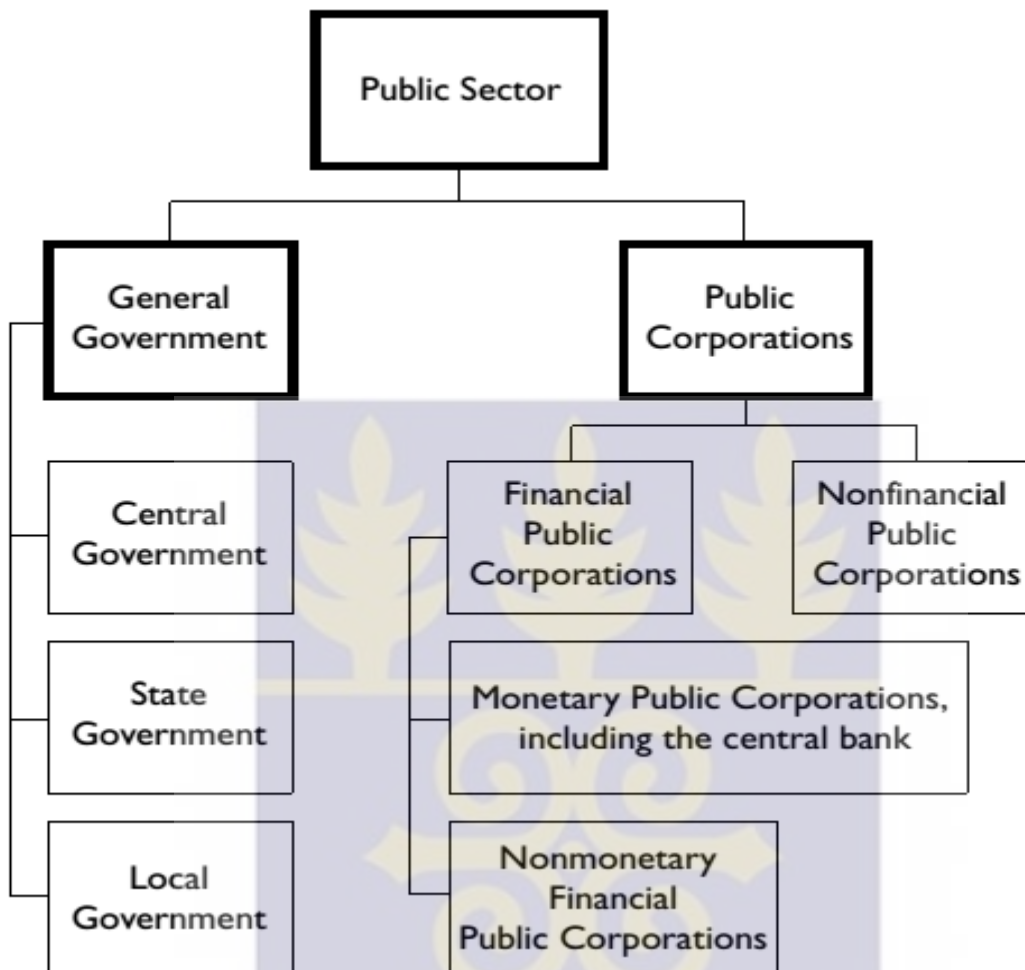
for funding to provide wide range of services (such as educational establishment; hospitals and social welfare establishments, public sanitations; culture, leisure and sport facilities) to local residents (IMF, 2001; 2014).

On the other hand, public corporations (also called State enterprises) consist of financial and non-financial corporations created by a legislative instrument to generate profit, protect key resources, provide subsidised basic services and promote competition in areas of high barriers to entry (IMF, 2014) but excludes quasi-corporations (Simpson, 2013; IMF, 2001). Similarly, IIA (2011) indicates that the public sector is made up of all Public Departments, Ministries, Legislature, Council, Cabinet, Agencies, Public Enterprises, State Business and Public Contractors.

Broadbent and Guthrie (1992) identified the domains of the public sector as comprising central government, local government, public institutional systems (PIS) and Public Business Enterprises (PBEs). However, Broadbent & Guthrie (2008) expanded the domains of the public sector by adding Public Private Partnership (PPP)/ Private Finance Initiative (PFI) arguing that very significant changes in funding, governance and accounting for control and operation including their systems of accounting and auditing give rise to what is termed Public Service (PS).

For the purpose of this current work, the definition and composition of public sector suggested by IMF (2001) is adopted and shown in figure 1 below.

Figure 2.1 Boundaries of the Public Sector



Source: Adopted from figure 2.2 (IMF, 2001 p. 15)

2.3 Nature of State-Owned Enterprises (SOEs)

The establishment of SOEs globally were the efforts of governments to improve the livelihood of their citizens in varied ways including socio-economic and environmental conditions in the country. As such, phrases such as Parastatal Organisations (POs), Government Business Enterprises (GBEs), Government Corporations (GC), Public Enterprises (PEs), Public Sector Units (PSUs), Government-Linked Companies (GLCs), Government Controlled Enterprises (GCEs), Public Business Enterprises (PBEs), are used as synonyms (PwC, 2015; Simpson, 2013). Although the impetus for establishing SOEs may change over time, there seems to be

an unending existence of the SOE sector in the global economic landscape (PwC, 2015; Kowalski, Büge, Sztajerowska & Egeland, 2013). Similarly, Simpson (2013) argued that the varied tags and descriptions of the SOE sector are as a result of their heterogeneity in nature and their identity in the public sector across the globe. But PwC (2015) indicates that the current moves toward harmonizing the legal status of SOEs with that of the private sector is likely to give a systematic description of the sector, as, for instance, the international public sector accounting standards board is in the process of issuing guidelines on how to define companies which are owned by the state. This suggests that varied definitions of SOEs exist in the literature just as SOEs have several names, their definition also varies across countries (PwC, 2015; Garson, 2015).

OECD (2009) indicates that SOEs are enterprises that are either wholly state-funded or those enterprises whose majority shares belong to the government. Based on this definition, it is argued that SOE is a compound term that implies both state-owned enterprises and state-holding enterprises with the difference being that the former comprises only 100% government ownership while the latter comprises majority state ownership (OECD, 2009). In a similar work, Garson (2015) suggested that any corporation that has a legal status as a result of a specific legislation is considered as an SOE if it engages in activities that are largely economic in nature. Thus, in this definition joint-stock companies, partnerships and limited liability companies in which the government has ownership are classified as an SOE.

In determining what constitutes an economic activity, the emphasis is laid on goods or services “on a given market and which could, at least in principle, be carried out by a private operator in order to make profit” (Garson, 2015 p. 15). Again, PwC (2015) defined SOEs to include enterprises that are significantly controlled through full, the majority, or significant minority ownership by the central or federal government as well as regional and local government.

However, for the purposes of this study, the definition provided by the UN (2008) has been adopted for this study. They define SOEs as “any commercial, financial, industrial, agricultural or promotional undertaking - owned by public authority, either wholly or through majority shareholding - which is engaged in the sale of goods and services and whose affairs are capable of being recorded in balance sheets and profit and loss accounts” (UN, 2008 p. 10). Thus, SOEs may engage in the provision of financial and non-financial services as well as operate in a competitive environment (PwC, 2015; Simpson, 2009). Similarly, Lienert (2009) provides three criteria for distinguishing between public corporation and other government establishments as follows; (1) where the entity trades majority of its output at economically significant prices, (2) Where the entity’s prices are not economically significant, then, that entity is not a public corporation, (3) where only part of the entity’s prices are economically significant or trades only part of its output then the entity is a quasi-corporation. In addition, studies show that SOEs possess some common features that may distinct them from their private counterparts. The table shows these common features of SOEs as suggested by UN (2008).

Table 2.1 Common attributes of SOEs

	State-owned enterprises	Private enterprises
General characteristics	<ul style="list-style-type: none"> -Rooted in government -Goals are largely determined by national politics -Objectives are usually broad or not well outlined -Accountable to the government or state 	<ul style="list-style-type: none"> -Rooted in market forces -Owned by individuals or investors -Clear profit maximisation goals -Accountable to shareholders or private owners
Innovative Orientation	<ul style="list-style-type: none"> -Political and bureaucratic restrictions on innovation -Weak incentives to deviate from standard operating procedures -Civil service protected managerial positions 	<ul style="list-style-type: none"> -Market opportunities provide freedom to innovate -Financial incentives for managerial risk-taking

	<ul style="list-style-type: none"> -Organisational and technological changes driven by state budget resources -Able to survive as ‘‘loss makers’’ because of soft budget constraints -Fixed par salary ranges -Limited interaction with external environment -Low levels of technological change 	<ul style="list-style-type: none"> -Managers’ employment depends on profitability -Salaries supplemented by opportunities for ownership stake -Extensive interaction with external environment - potentially high levels of technological change
Human Resource Management	<ul style="list-style-type: none"> -Formalisation and standardisation in hiring -System-wide rules for promotion and removal -Limited ability to reward unique roles or performers -Limited incentive to use technology to increase labour productivity -Managerial behaviour driven by civil service rules -Difficult to remove or reassign employees 	<ul style="list-style-type: none"> -Firm determines rules of recruitment -Differentiated pay rates -Promotion and removal determine by performance -Strong ability to reward unique role and performers -Strong incentives to enhance labour productivity with technology. -Behaviour is driven by incentives and firm strategy -Easy to remove or reassign employees
Productivity and Work Effort	<ul style="list-style-type: none"> -Difficult to provide feedback on performance -Limited freedom to design jobs -Limited control over group norms -Standardised pay and limited opportunities for extra rewards for effort 	<ul style="list-style-type: none"> -Freedom to set goals and provide employee feedback -Flexibility to design jobs -Strong control over group norms -Strong work motivation is driven by uncertain job security and opportunity for financial rewards

Source: Table 1. UN, (2008 p. 39-40)

2.3.1 SOEs Pros and Cons

Literature review on SOEs indicates that there exist highly polarised viewpoints (largely theoretical and ideological) about the existence and the relative importance of SOEs in the global economy.

Many economies such as Brazil, Russia, India, China and South Africa (also known as BRICS) have become successful as a result of large SOE sector, however, unsuccessful economies are

characterised by small SOE sector (Chang, 2007; PwC, 2015; Chavez & Torres, 2014). For instance, China (the second largest economy in the world) stands out as the nation where the strength of SOEs is visible as it has 144700 companies (excluding FIs) owned by the state and these companies are largest companies in the world (Chavez & Torres, 2014; Xinhua, 2012). Garson (2015) indicates that the optimal reason for state ownership of business enterprises should be to fulfil the interests of the general public. Chang (2007) underscores four major reasons why SOEs are necessary for the global economy ; 1) SOEs are set up to curb economic inefficiency and unequal distribution of economic profits in areas of natural monopoly, 2) A common case for the existence of SOEs is in the area of capital market failure which implies the inability of private sector investor to finance the project with long maturity periods and/ or high risks, 3) Externalities which explain the fact that private investor would not finance industries that benefit other industries without receiving returns, 4) Equity which explains that given the nature of certain goods and services, if left in the hands of private investors, would render the less profitable unserved. Expanding this argument, Chavez and Torres (2004) highlight that in most jurisdictions, SOEs are not necessarily established for the purpose of big economic planning but for problem-solving and / or are the result of internal politics. For instance, in developing economies where there is a lack of capital pools, SOEs play critical roles during the development process of any sector by providing the required capital pool for undertaking large projects such as power, transport, and health (Chavez & Torres, 2014; UN 2008).

Also, in terms of statistical importance of SOEs in the global economy, UN (2008) state;

“Although reduced significantly, PEs continue to have a major presence in many national economies. In high-income countries, PE’s share of GDP and investment constitute 8 %, and 13 % respectively. For middle-income countries, the corresponding share is 9 % and 17 %, while in the so-called Least Developed Countries (LDCs) they are 14 % and 28 %. PE’s also

constitute an important source of government revenue in many developing countries (China: 7%, Thailand: 7%, Turkey: 6%) and regions such as North Africa (Algeria: 60%, Egypt: 12%, Morocco: 4%, Tunisia: 7%), the Middle East (Jordan: 14%, Lebanon: 17%, Syria: 24%) and Eastern Europe (Czech Republic: 2%, Hungary: 3%, Poland: 4%, Slovakia: 5%, Slovenia: 3%). In terms of employment, PEs employ 34.3% of the total workforce in Ghana, 25.1% in Gabon, 12.2% in Sri Lanka, 8.1% in India, 7.7% in Kenya and 7.4% in China” (UN, 2008 p. 4).

Similarly, Kowalski et al. (2013) reveal that out of the of 2000 world largest public companies in Forbes Global 2000, 204 comprises multinational SOEs with a combined turnover of \$ 3.6 trillion which represents over 10% of the total revenue of the entire 2000 public companies and more than the Gross National Income of Germany, UK and France. Commenting on these findings, Chavez and Torres (2014) argued that the fact that SOEs alone contribute 10% of the total revenue may suggest that SOEs are more efficient.

In Ghana, the existence of SOE sector predates to the colonial era but the numbers increased rapidly after independence as the efforts of successive governments was to improve the general economic outlook through SOEs (Simpson, 2013; Appiah-Kubi, 2001; Uddin & Tsamenyi, 2005; Meng, 2004). The most evidence of all was during the Acheampong (NRC) regime where the government envisaged the SOE sector as the most powerful tool for economic prosperity leading to the establishment of 324 SOEs (Simpson, 2013; Appiah-Kubi, 2001). The obvious claims for the massive development of the SOE sector were not different from the global arguments of curbing natural monopoly, lack of private sector investments and particularly in Africa, high levels of foreign domination in the economy (Appiah-Kubi, 2001). However, due to high financial and managerial burdens as a result of ineffectiveness, poor performance and inefficiencies in the SOE sector led to several reforms such as divestitures,

privatisations and liquidations (Meng, 2004; Appiah-Kubi, 2001; Simpson, 2013; Nellis, 2005).

On the contrary, Capobianco and Christiansen (2011) argued that in most cases SOEs do not perform better, do not possess exceptional managerial qualities, better technology or superior efficiency than their private competitors but only receive government protections and privileges such as outright subsidisation, concessionary financing and guarantees, and monopoly power. They also enjoy advantages of incumbency, captive equity, exemption from bankruptcy rules and information advantages, and other preferential treatments that gives them competitive advantages (Capobianco & Christiansen, 2011; p.6) . There is, therefore, the need for a level playing for both SOEs and private entities where no sector is advantaged or disadvantaged just because of ownership (Capobianco & Christiansen, 2011). In many capitalist economies as well as international organisations like the IMF and World Bank, SOEs are seen as the cause of inefficiency, slow economic growth and investment (Chavez & Torres, 2014; Muhlenkamp, 2013). Consistent with this argument, Chang (2007) indicates that only a few SOEs are actually performing well as many are not well managed as a result of the issue of principal-agent and free-rider problems. In Ghana, for instance, the government reported that it receives dividends from only 5 SOEs annually for the past four years. Ghana is one of the many developing countries that is experiencing several SOE reforms geared toward providing alternative and innovative ways of making the SOE sector profitable (Meng, 2004; Simpson, 2013).

2.4 Internal Auditing in the Public Sector

As far as studies regarding IA in the public sector is concerned, the level of IA practices varies across nations and even across sectors. Thus, the Institute of Internal Auditors (IIA) acknowledges this fact by indicating that the cultural and legal environment in which IA operates differs and that issues of organisational complexity, size, purpose and structure may

affect the practice of internal auditing (IIA, 2012). Studies that looked at the similarities and differences between the IAF in the public and private sectors showed that the two sectors share several similarities in terms of amount of work outsourced (Papageorgiou, Yasseen & Padia, 2012; Barret, 2002; Goodwin, 2004), role of IA in entity governance (Barret, 2002), but differs in terms of framework and area of operation (Carhill & Kincaid, 1989; Coupland, 1993 cited in Calu, Stefanescu, Turlea, Dobrin & Serban, 2011). A comprehensive study on the comparison of internal audit in the private and public sectors by Goodwin (2004) describes the situation as follows: IA status in both sectors differs in terms of whom the internal auditor reports to; IAF is more likely to be outsourced to external auditor in public sector than in private sector; IA is perceived to reduce external audit fees in private sector than in public sector.

The above suggest that IA in the public sector possess some unique features that need to be the concern of public enterprise managers. An empirical study of IA role in effective management of public organisations by Enofe, Mgbame, Osa-Erhabor and Ehiorobo (2013) suggest that IA plays a critical role in enhancing effective management in the public sector. However, an effective IAF does not, on its own influence management effectiveness in the public sector (Enofe, Mgbame, Osa-Erhabor & Ehiorobo, 2013; Barret, 2002). Equally, Asare (2009) insinuates that in the past, public sector IAF was given a narrow range of expectation than in the private sector. For example, he emphasises that the IAF was predominantly concerned with pre-payment audit where internal auditors give ample time and efforts ensuring that each transaction is evidenced before payments are made (Asare, 2009).

Scott (2003) writes that public sector audit is traditionally concerned with issues of legality, probity and regularity with additional new concerns of efficiency and performance. In other words, given the strategic status reached by IA in contemporary organisational governance, IA is equally playing an essential role in public sector governance and financial management reforms aimed at improving performance in the government sector of developing economies

(Diamond, 2002; Asare,2009). Thus, the IAF is not only anxious with compliance and financial audit but is inexorably concerned with “value-for-money” or performance audit which requires a holistic view of the monetary and social implications of government activities (Diamond, 2002).

In order to harmonise the global practices and objectives of internal auditing, the IIA and the International Organisation of Supreme Audit Institutions (INTOSAI) issued the internal auditing standards that defined the so-called “best practices” that meet international standards. Though these standards are not mandatory, it is anticipated that countries that develop their own public sector internal auditing standards will reflect these best practices. However, Diamond (2002) questioned the relevance and practicability of these standards in developing and transitional countries. He argues that the standards have not entirely addressed the common problems faced by IA in these economies because the standards favour the role of IA existing in developed countries.

2.4.1 Organisational Arrangements of IA in the Public sector

Generally, Diamond (2002) identified two kinds of models within which IA operate- the centralised model and the decentralised model. In the decentralised model, IA control systems (i.e. the range of ex-ante controls, systems, performance and IT audits) ensures the greatest economic, efficient and effective use of resources by focusing on the overall system of organisation, procedures, controls, rules and regulations (Diamond, 2002). In the centralised model, “IA is focused on a specific organisation performing certain control functions, traditionally a centralised ex-ante financial control organisation, an inspectorate general, or a treasury external audit service”(Diamond, 2002 p.10). In addition, the author hints that a somewhat mixed model has been identified in other jurisdictions where the internal and external audit functions hand-in-hand.

Similarly, Asare (2009) underscores five main approaches through which IA is configured into the public sector governance system. These are; 1) IA as part of the Accountant-General's Office, 2) IAF under the Ministry of Finance, 3) Decentralised IAF situated at the entity level, 4) IA as part of the Auditor-General's Office, and 5) Centralised IAF under the cabinet. Consequently, Asare (2009) explains that in the first instance, it is likely that an IA staff may be required to perform both accounting and audit duties. In the second, the IA staff are not employees of the IA department thus could be seen as an extension of external audit. In the third, IA forms an integral part of Government Departments hence IA staff are part of the organisation they work with. In the fourth, IA staffs receive professional and technical as well as supervisory from the Supreme Audit Institution (SUI) but reports to the Auditor-General. In the fifth, IAF is a responsibility of cabinet in providing an assurance that proper controls and procedures adhere to government departments and agencies.

2.4.2 The role and Importance of IA in the public sector

The general roles of IA as stated by the IAA and also known as the “three pillars” of internal auditing are to improve risk management, control and governance processes. That is, IA broadly ensures that organisational objectives are achieved by stressing compliance with relevant laws, regulations, ethical and behavioural standards, and appropriate assessment of risk (Asare, 2009). IA has become a cornerstone in public sector governance given its ability to provide objective risk assessment and controls that ensure the effective and efficient use of public resources (Spanhove, Saren, van Gils & Verhoest, 2008). Spanhove et al. (2008) studied the role IA in Belgian public sector using the IIA typology. Their findings classified the role of IA into three different categories namely assurance, suggestions and recommendations, and consultancy. Their findings show that, out of these three roles, assurance dominates as the major role of IA, followed by formulation of recommendations and suggestions while consultancy activities remain the least performed role. Besides, they identified compliance,

performance, operational, financial and IT audit as IA activities that are mostly performed in the public sector, but IT audit is usually outsourced while the financial audit is performed by an external auditor. Similarly, Asare (2009) analyses IA roles in the public sector through the lenses of control, risk assessment and managerial processes. He writes that, in the public sector where there is the prevalence of corruption and resource misuse, internal audit functions as key governance mechanism used to report to senior management on the functioning of control systems and recommendation for review. In terms of risk assessment, he submits that the dynamic environment of the public sector and the ever increasing demand of public services by citizens coupled with scarce resources require IA departments in public entities to assess and monitor risks, recommend controls to mitigate those risks and assess trade-offs appropriate to achieve organisational objectives. And with regards to managerial processes, he insinuates that IA provides internal consultancy services such as performance review, the effectiveness of controls, and strategies to improve processes to the executive arm of government through management thus ensuring transparency in decision and policy-making in public institutions.

2.4.3 Internal Auditing in Ghanaian Public Sector

Any organisation, whether private or public can benefit from an internal audit in two ways- benefits from performance audit to ensure economy, efficiency and effectiveness; benefits from the conventional audit of financial systems and controls that ensure detection and prevention of irregularities (Al-Twajry, Brierley & Gwilliam, 2003). The constitution of Ghana (1992) and the Internal Audit Agency Act, 2003 (Act 658) requires the Auditor General to audit and report on the public accounts of Ghana including public corporations and other bodies established by an act of parliament. In spite of this constitutional requirement, Onumah and Krah (2012) indicate that internal audit in Ghana was keeled by the lack of legislative and administrative recognition until 2004. Consistent with this argument, Simpson (2012) highlighted that the establishment of the Ghana Audit Agency was a response to the lack of

proper accounting and auditing systems in the public sector during the 1990s. After its establishment, the Ghana internal audit agency is involved in the establishment of internal audit units (IAUs) in MDAs and MMDAs as well as the issuance of internal audit standards for practising IA in the MDAs and MMDAs. Onumah and Krah (2012) defined the public sector to comprise MDAs, MMDAs, commissions, educational and research institutes, boards, authorities, and Public Corporations or State- Owned Enterprises.

Besides the Agency's involvement in the public sector, the SEC under the law establishing it is obliged to facilitate the establishment and effective operation of IAFs in SOEs in Ghana (PNDC Law 170, Sec. 2 j). Again, like any profession, internal auditing gained a professional recognition in 1941 when the need for standardisation and common body of knowledge was acknowledged and this precipitated the establishment of the IIA in New York by some group of internal auditors (Dittenhofer, 2001; Asare, 2009; Chambers & Odar, 2015). Consequently, the IIA Ghana, as an active member of the IIA Global has significantly contributed to internal audit practice in both private and public enterprises since its inauguration in 2005. The IIA Ghana facilitates the professional development of internal auditing through professional examination organised by the global body. Despite these remarkable strides in internal audit in Ghana, the study by Onumah and Krah (2012) found that there was no Certified Internal Auditor in the Ghanaian public sector as at 2012.

2.5 IA Effectiveness

Generally, effectiveness is used to describe the achievement of targets or outputs. The oxford dictionary of current English defines effectiveness as producing an intended result. Again, Dittenhofer (2001) highlights that effectiveness is the attainment of goals and objectives using the factor measures provided for determining such achievement. In terms of an organisation, Yutchman and Seashore (1967) indicate that an organisation is effective when it obtains the highest quality of resource procurement by maximising its bargaining position. Following from

this, extant literature provides different perspectives of IA effectiveness. Ahmad (2015) explains that basically IA effectiveness is achieving IA objectives.

Ridley (2008) argues that IAF performance is measured using the “3Es” – efficiency, economy, and effectiveness. In his view, economy measures how best IAF utilises limited resources to perform its work; efficiency looks at the link between IAF performance and the resources used, and effectiveness stresses the achievement of the output of IAF. However, Lenz and Hahn (2015) and Lenz (2013) highlight that, regardless of how economically or efficiently the service is being rendered, internal auditing is ultimately futile if it was ineffective. Similarly, Ahmad (2015) argued that the control, governance, accountability and performance of an organisation is reinforced and strengthened if the internal audit function is effective. Drawing from the IIAs definition of internal auditing, the literature indicates that the objective of internal auditing is to ensure the effectiveness of risk management, management control and governance processes (e.g. Ahmad, 2015; Cohen & Sayag, 2010). Therefore, IA is effective if it is achieving its set objectives.

Dittenhofer (2001) further decomposed the objective of internal auditing into basic components in that, IA exists to assure sound financial and operational control, ensure reliable financial statements, operational reports, compliance with regulations, policies and procedures, ethical and cultural norms, evaluate performance of operating, middle and to management, assure safeguarding of corporate assets. Researchers such as Al-Twaijry et al. (2003) and Cristina and Cristina (2009) suggest that IA is effective when it is value adding. Also, IA effectiveness is a risk-based concept that helps an organisation to achieve its objectives (Lenz & Hahn, 2015; Lenz, 2013). It is also argued that the ability of IA to realise its objectives basically depends on its effectiveness (Đukić & Đorđević, 2014).

Although the IIA definition could be said to have provided standardised objectives of an IAF, the actual objectives of any IAF depend on the organisation and the motivations for setting up the IAF. Consequently, those objectives and the means for achieving them must be clearly defined so that the IAF remains focused (Dittenhofer, 2001).

2.5.1 Measuring IA Effectiveness

The principal activity to ensuring IA effectiveness is developing techniques of how effectiveness must be measured and evaluated (Đukić & Đorđević, 2014), and this responsibility rests upon the chief audit executive (Bota-Avram & Palfi, 2009; Zureigat & Al-Moshaigeh, 2014). Similarly, the importance of measuring and evaluating the performance of IA by using the most appropriate methods has become a global challenge because of the increased awareness of its function as a value provider (Boța-Avram, Popa & Ștefănescu, 2010). Consistently, Lenz (2013) highlights that the ability to measure the effectiveness of IA increases its perceived relevance and legitimacy in the eyes of stakeholders. Consequently, two techniques are available from the perspectives of both professionals and academicians namely quantitative and qualitative techniques (Bota-Avram & Palfi, 2009; Boța-Avram, Popa & Ștefănescu, 2010; Ernst & Young, 2007; Zureigat & Al-Moshaigeh, 2014).

Using the quantitative technique, Bota-Avram and Palfi (2009) identified some specific variables by which IA effectiveness are measured and these include; determination of the extent to which internal audit plans for a given period and a given activity are realised; identification of the time lag between the end of the audit work to the date of the issuance of the final audit report; identifying and monitoring the time frame relevant for solving of audit findings with emphasis on number of deficiencies solved as compared to unsolved; an assessment of the number of audit employees with professional qualification or with professional experience as a result of performing internal audit work; and a comparison of the time spent for administrative activities relative to time dedicated for internal audit activities.

Also, The Global Internal Audit Survey, a report published by Ernst and Young (2007) looked at IA functions through the lens of governance, people, and infrastructure and operations within 138 multinational public companies with revenues above US\$4billion, which are members of the Global Business Week 1000 and featured in the Standard and Poor's Global 1200 from 24 countries. They analysed the survey data using Ernst and Young's Internal Audit Framework which is used by leading multinational companies in analysing their IAF. Their results highlight that 89% measure IA effectiveness using proportion of completed internal audit works relative to internal audit plan, and 72% use length of time it take to issue IA reports, about 32% use length of time it takes to resolve IA findings, and 23% use IAF support for key business initiatives. Similarly, Zureigat and Al-Moshaigeh (2014) realised that in Saudi, listed firms rely more on quantitative methods in measuring IA performance. They identified specific measures such as the percentage of completion of planned audit work and the required time for issuing audit plan. Also, Protiviti (2015) identified the number of audits performed and length of time per each auditor as some quantitative measures. However, using quantitative technique alone ignores some important subjective views (Đukić et al., 2014).

Literature also suggests several qualitative methods used in measuring IA effectiveness. For instance, Bota-Avram and Palfi (2009) identified management perceptions about IA work and auditees perceptions about the value adding role of IAF as the common yardsticks in measuring IA effectiveness. Consistently, Protiviti (2015) found that some organisations utilise qualitative methods to track whether the audit plan was executed. Besides, Zureigat and Al-Moshaigeh (2014) identified stakeholders' feedback, the reliance of auditees on IA work and stakeholder questions concerning IA role as the most important qualitative measures used by Saudi listed firms. In addition, Soh and Martinov-Bennie (2011) highlight top management acceptance and adoption of audit findings and recommendations as well as timely completion of planned audit to be dominantly employed measures of IA effectiveness. Thus, Zureigat and Al-Moshaigeh

(2014) hinted the need for a comprehensive approach that combines both qualitative and quantitative measures of IA effectiveness and its value-adding role.

2.5.2 Factors that Influence IA Effectiveness

Review of empirical studies in IA effectiveness shows that several factors, depending on how they are managed could create an effective IAF. This section focuses on the outcome of the review of literature in relation to some important factors that influence IA effectiveness in the public sector. Meanwhile, Goodwin (2004) suggests IA practices in public and private sectors within Australia and New Zealand are similar in terms of the proportion of IA work outsourced, but dissimilar with regards to the organisational status of IAF, frequency of outsourcing IAF, and the nature of IA activities.

Management Support

Management support is one of the most critical factors that influences IA effectiveness (Ahmad, Othman, Othman & Jusoff, 2009; Alzeban & Gwilliam, 2014; Arena & Azzone, 2009; Cohen & Sayag, 2010; George & Konstantinos, 2015; Mihret & Yismaw, 2007; Hung & Han, 1998; Modibbo, 2015). Management support is defined in terms of top management response to audit findings and establishment of audit committee to facilitate IAF. For instance, Mihret and Yismaw (2007) studied IA effectiveness in an Ethiopian public university and realised that out of four factors, management support was key to IA effectiveness in that jurisdiction. Similarly, Onumah and Krah (2012) looked at the barriers and catalysts to IA effectiveness in 40 ministries, departments and agencies (MDAs) within the Ghanaian public sector and realise that the lack of management ownership and support for the IAF was a key barrier to IA effectiveness. Another important study by Ahmad et al. (2009) which looked at IA effectiveness in Malaysian public sector indicates that management support in the form of provision of required audit staff with appropriate resources and remunerations is critical to IA effectiveness. Besides, Alzeban and Gwilliam (2014) highlight that management support

focuses on employing well trained and experienced staff, ensuring IA resource adequacy, and ensuring good relation between internal and external audit. Their findings indicate that among Saudi public sector organisations, management support was most important in ensuring IA effectiveness. Also the ability of management to ensure continuous training and developmental programs are available to IA staff, ensure strategic planning of audit work in a given period was crucial to IA effectiveness in Israeli public sector (Sayag, 2014). In addition, top management is responsible for ensuring the independence of the IAF which motivates them to work effectively (Modibbo, 2015). Moreover, customers of IAF view the attitude of top management towards audit reports and recommendations as influential in IA effectiveness (Yee, Sujan, James & Leung, 2008).

Internal Audit Quality

Empirical literature identified the quality of internal audit as an important determinant of IA effectiveness (e.g. Ahmad et al., 2009; Mihret & Yismaw, 2007; Sayag, 2014). The study by Sayag (2014) identified the extent to which the IAF makes follow-ups on actions meant to correct problems identified in the audit report and the ability of the IAF to properly plan and execute timely audits on its own as key audit quality attributes that ensure IA effectiveness. Besides, Ahmad et al. (2009) realised that the competence, objectivity and quality of IA work are critical proxies to audit quality which is a determinant of IA effectiveness in the Malaysian public sector. Mihret and Yismaw (2007) showed that staff expertise, effective communication of audit plan and report and scope of IA work are import considerations of audit quality. They also highlight that audit quality was the second most important determinant of IA effectiveness in the Ethiopian public sector. Consistent with these findings, Modibbo (2015) in assessing the effectiveness of IAF among local authorities within the Adamawa State alludes that the frequency of reporting audit findings and recommendations, the skills and experience of IA staff are dominant determinants of audit quality. From the perspectives of IAF customers, Yee

et al. (2008) highlight consistency of audit findings with the work performed is a most valued attribute of audit quality.

Organisational Setting

The internal arrangements, as well as external conditions, are important factors that determine IA effectiveness. Consequently, Enofe et al. (2013) and Mihret and Yismaw (2007) underscore that the status of the IAF within the organisational structure, budget authority and status of IAF as well as the existence of clearly defined criteria for assessing auditees' practices are important variables of organisational setting that produce IA effectiveness. They reasoned that IA effectiveness hinges on the promulgation of policies and procedures against which organisational practices are compared. Similarly, Ahmad et al. (2009) findings explained that full cooperation of auditee is ranked third most crucial factor in ensuring IA effectiveness since the absence of cooperation limits IAF access to records, activities and properties. Also, Onumah and Krah (2012) note that IAF role misconception contributes to poor auditee cooperation while political constraints impedes IA effectiveness in MDAs. Mihret and Yismaw (2007) highlight that for IA to be effective, independence of individual auditors, autonomy on budget and proper internal organisation of structure and processes must be adhered to. Moreover, Soh and Martinov-Bennie (2011) emphasise IAF visibility protections and empowerment across the organisation as key to its effectiveness.

Size, Competence, and Composition of IAF

The size of the IAF in terms of the number of staff members compared with the scope of work is vital for its effectiveness. Competence refers to the educational and professional qualifications of IA staff, while composition explains the diverse background of IA staff. For instance, Alzeban and Gwilliam (2014) report a positive relation between staff size, competence and IA effectiveness. Consistently, in Ahmad et al. (2009), respondents ranked inadequate audit staff as grievous to IA effectiveness. In terms of staff composition, Soh and

Martinov-Bennie (2011) recognise the need for IAF to be filled with wide range of skills such as engineering, economics, technology, finance, accounting as well as law. Put differently, Onumah and Krah (2012) showed that IAF in the MDAs were staffed with personnel with accounting background thus skewing the quality of IA work to accounting checks with little attention to risk management and good governance. They also highlight understaffing of IAFs as a major barrier to its effectiveness. Besides, Arena and Azzone (2009) studied organisational drivers of IA effectiveness using 153 Italian firms. Their findings highlight two important elements consistent with the current discussions. First, IA effectiveness increases when the staff size grows and second, IA effectiveness increases when the chief audit executive is affiliated with the IIA.

2.6 Chapter Summary

This chapter begins with a broader consideration of the context of the public and private sector by highlighting important definitions, differences, and similarities. This is important since it was argued throughout IA literature that IA effectiveness is contextually dependent. In addition, the chapter discusses in detail the concept of internal auditing, its role, importance, effectiveness with a particular focus on the public sector. The ambiguities associated with measuring IA effectiveness and empirical studies on the factors that influence IA effectiveness were discussed in detailed.

CHAPTER THREE: RESEARCH METHODOLOGY

3.0 Introduction

This section explains the research design adopted, philosophical assumptions on which the study hinges, and the data collection methods employed to fill the research gap identified. The study used the institutional theory and resource-based theory to analyse the factors that influence IA effectiveness in SOEs in Ghana. The section specifically discusses the research design and methodology for achieving the objectives of the study, the population of study, sampling techniques, research instruments, data collection process and the analysis procedure and ethical consideration.

3.1 Research Paradigm

The first step for any research work is to choose a topic and a paradigm (Joubish, Khurram, Ahmed, Fatima & Haider, 2011). A paradigm is “the basic belief system or worldview that guides the investigator, not only in choices of the method but in ontologically and epistemologically fundamental ways” (Guba & Lincoln, 1994: p.105). Joubish et al. (2011) define a paradigm as importantly a worldview, the whole framework of beliefs, values and methods within which research takes place. It is the way an individual understands the world, his place in it and the possible relationships between parts of that world. Thus, Creswell (2007) simply referred to a paradigm as a “worldview” of the inquirer. This worldview is largely influenced by one’s field of study as a student, the beliefs of advisers and faculty in an area of study and previous experiences in research (Creswell, 2007). Paradigm as a knowledge claim means that researchers begin any project with a set of assumptions about what they want to learn and how to learn it (Creswell, 2003).

Guba and Lincoln (1994) identified five major paradigms used in contemporary research; Critical Theories, Positivist, Post-positivist, Constructivism and Cooperative/Participatory

Paradigms. Similarly, Creswell identified Post-positivist/Positivist, Advocacy/Participatory, Constructivism/Interpretive and Pragmatism as the four major worldviews used in conducting research. Joubish et al. (2011) identify the paradigm framework as made of Philosophy, Ontology, Epistemology and Methodology. Consequently, Krauss and Putra (2005) disclose that epistemology, ontology and methodology are intimately related thus; while ontology involves an understanding of reality, epistemology explains how we come to know that reality and methodology involves the specific practices developed to obtain knowledge of reality. The four worldviews and their basic assumptions and beliefs about knowledge are presented below.

Table 3.1 Four Worldviews

Worldview	Main Assumptions/Beliefs
Positivism/positivist	<ul style="list-style-type: none"> -Determination (i.e. identification and assessment of causes that influence outcome) -Reductionism (i.e. reduce the ideas into a small, discrete set of ideas to test. Example, variables that comprise hypothesis and research questions) -Empirical observation and measurement (i.e. involves careful observation and measurement of reality that exists “out there” in the world) -Theory verification (i.e. there are theories or laws that govern the world, and these need to be tested so that we can understand the world)
Constructivism/Interpretive	<ul style="list-style-type: none"> -Understanding (i.e. individuals seek understanding of the world within which they live) -Multiple participant meanings (i.e. individuals develop varied and multiple subjective meanings of their experiences) -Social and historical construction (i.e. subjective meanings are negotiated socially and historically) -Theory generation (i.e. inquirers generate or inductively develop a theory or pattern of meaning)
Advocacy/Participatory	<ul style="list-style-type: none"> -Political (i.e. research inquiry needs to be intertwined with politics and a political agenda)

-Empowerment issue –oriented (i.e. the focal issues of study include empowerment, inequality, oppression, domination, suppression, and alienation)

-Collaborative (i.e. inquirer collaborate with participants in design questions, collect data, analyse information or reap the rewards of the research, thus participants are not marginalised)

-Change-oriented (i.e. research becomes a united voice for change and reform)

Pragmatism

-Consequences of action (i.e. worldview arises out of actions, situations and consequences rather than antecedent conditions)

-Problem-centred (i.e. there is a concern with applications and solutions to problems rather than focusing on methods)

-Pluralistic (i.e. uses pluralistic approaches to derive knowledge about the problem)

-Real-world practice-oriented

Source: adapted from Creswell (2007).

Creswell (2007) suggests that in any research plan, the researcher can explicitly state the overall philosophical ideas of the study since it helps to explain why a particular research design is chosen. Accordingly, the research paradigm that guided the conduct and practice of this study was the constructivist/interpretive worldview. This position is consistent with the basic argument that IA effectiveness is contextual, time bound and subjective.

3.2 Research Design

Yin (2009) defines research design as the system of reasoning used to show the data to be collected and the conclusions to be drawn are linked to the original research questions. Creswell (2007) writes that the choice for any research design is largely influenced by issues such as the researchers' worldview assumption, nature of research problem, researchers' personal experience, procedures of inquiry, and methods of data collection, analysis, interpretation and

audience for the studies. The literature on research methods identifies qualitative, quantitative and mixed methods as the three types of research design (Guba & Lincoln, 1994; Creswell, 2003, 2007, 2009; Joubish et al., 2011). Creswell (2007) points out that the three approaches can best be viewed as consisting of a continuum and that a study tends to be more qualitative or quantitative; with mixed method residing in the centre since it combines both qualitative and quantitative approaches. Consistent with this argument, Mauch and Park (2003) indicate that the difference in the research approach does not make ones work better than the other but reasonably reflects its suitability to a given problem under study. Moreover, Krauss and Putra (2005) reiterate that the central difference between the quantitative-qualitative debate is philosophical and not methodological.

Consistent with the research questions, this study assumed the qualitative approach to research. The qualitative research “is a means of exploring and understanding the meaning individuals or groups ascribe to a social or human problem” (Creswell, 2007:37). Joubish et al. (2011) insinuate that the common aim of any qualitative research is to have a deeper understanding of the research object. Similarly, Krauss and Putra (2005) posit that qualitative research operates on the tenet that a phenomenon is best understood when it is viewed in its context and that the researcher is strongly involved in the study. In addition Creswell (2009) summarised the characteristics of qualitative research as data collected in the natural setting where participants experience the issue or problem; the researcher is part and parcel of the data collection process; multiple sources of data are gathered; data analysis follows an inductive process; focus is on the participants’ meanings about the issue or problem; research design is emergent since the initial research plan is subject to changes.

3.3 Research Strategy

Creswell (2009) defines a research strategy as the types of study available within qualitative, quantitative or mixed methods designs or models that give specific guidance for procedures to accomplish a chosen study. Consequently, Creswell (2007) and Baxter and Jack (2008) identified Narrative research, Phenomenology, Ethnographies, Grounded theory studies and Case study as the five major strategies available within the qualitative approach.

Being mindful of the phenomenon under study, the research strategy considered more appropriate for this study is the case study strategy, thus utilised. A case study allows the researcher to explore a bounded system (a case) or multiple bounded systems (cases) over time through detailed, in-depth data collection involving multiple sources of information (observations, interviews, audio-visual materials, documents, and reports), and report a case description and case-based themes (Creswell, 2007; Yin, 2004; Baskarada, 2014). Yin (2003) defines a case study as an empirical inquiry that investigates a contemporary phenomenon in-depth and within its real-life context, especially when the boundaries between phenomenon and context are not clearly evident. Moreover, case studies are an essential strategy when the study aims to shed more lights on a particular situation and when “why” or “how” questions are being asked to get a first-hand understanding of the situation (Yin, 2004). Accordingly, case study research emphasises on depth which is important for this study as the researcher sought to find out the factors that influence IA effectiveness in the public sector with particular focus on SOEs. Extant literature in the study area are very few and in-depth study is still rare. Hence, in-depth study is required to make room for the exploration of the complex issues. Also, emphasis on the importance of the context surrounding a case and its influence on the participants deem appropriate for this study as the settings of the participants was relevant for this study.

The literature on case study methodology identifies that case study design could be single-case, multiple-cases, holistic or embedded-subcases (e.g. Yin, 2004; Bennett, 2004; Baxter and Jack, 2008; Zucker, 2009). Yin (2009) notes that there is no clear distinction between the types and are considered as variants within the same methodology. He further explained that the single case study design is useful when the study being carried out is longitudinal, representative, revelatory, and unique cases while multiple-case study design uses more than one case to achieve external validity.

In this study, the multiple-case study design is employed since it is consistent with the research objectives. This strategy is adopted because the unit of analysis for the study is a case. The multiple-case study helps to acquire meanings from the selected units of analysis. Yin (2009) underscores that a multiple-case study is not just about a sampling design but a replication design in which the findings of one case can either predict similar results or predict contrasting results in other cases. Being mindful of this challenges, the study investigated mainly the factors that influence IA effectiveness in Ghanaian SOEs and the results were specific to the cultural and natural settings of the cases under the study.

3.4 Study Population

Neuman (2007) suggests that the term population can be used to represent all the cases of people, institutions or organisations of interest to the researcher.

Emplacing the study on SOE sector as a population of cases, there is no accurate number of SOEs in Ghana given continues changing nature of SOEs, restructuring and reorganisations of the SOE sector. However, since SEC functions as an oversight body over SOEs, it has given some estimation of the number of SOEs. In exercising its functions, SEC organised the SOEs under seven major umbrellas as Media and Arts, Transport, Water and Housing, Energy, Trade and Industry, Agriculture, and Engineering Services. Using this as the basis for identifying the

number of SOEs, 37 SOEs were identified as operating under the SEC as at 2016. The motivations for selecting the SOE sector over the other public sector organisations have been disclosed throughout the study (see e.g., chapter two).

3.5 Target Population

Neuman (2007) defines target population as the specific cases, institutions or organisations within a population that the researcher wants to study about.

From the definition of SOEs adopted (in chapter two) and the theoretical framework used for this study, the target population for this study is SOEs that have commercial or business objective and whose operations spans across the country. In Ghana, the establishment of an IAF is mandatory for all public sector organisations (e.g. SOEs) following the passage of the Internal Audit Agency Act in 2003.

3.6 Sampling Technique

Neuman (2007) explains that sampling is the process of selecting a sample or subset of the target population for the purposes of making observations or making statistical inferences about the population. Similarly, Latham (2007) defined sampling as a method used to obtain research information where only a representative of the population is selected. It involves selecting units from the population of interest so that by studying the sample the researcher can fairly generalise the results back to the population from which the units were selected or chosen.

Sampling is broadly grouped into two standard techniques namely probability and non-probability sampling. Wilmot (2005) underscores that qualitative research utilises non-probability sampling techniques. Accordingly, literature identifies convenience sampling, purposeful sampling, theoretical sampling as the three major sampling techniques used in qualitative research (Wilmot, 2005; Marshall, 1996).

Consequently, purposive sampling was used in the selection of three SOEs out of the thirty-seven given that only five commercial SOEs continuously paid a dividend to the government as at 2014. Thus, one dividend paying and two non-dividend paying SOEs were selected for the study. As indicated earlier, the selected SOEs have business operations that span across the national, regional and district levels of the country. Since this study argues the use of the resource-based theory, the selection criteria would help in getting in-depth data for the study. Purposive sampling also known as judgement sample involves sampling units within the population with a specific framework in mind. It is very useful in situations where the researcher needs to reach specifically identified units or groups within the population of interest (Neuman, 2007; Latham, 2007; Wilmot, 2005; Marshall, 1996). The selection process is important in ensuring that selected SOEs are both significant and instrumental in the SOE sector so that the objectives of this study could be achieved.

3.7 Data Collection Techniques

The key ways of collecting qualitative data are observation, open-ended interviews and review of documentations (Patton, 2002; Joubish et al., 2011; Creswell, 2007; 2009). Moreover, Patton (2002) highlights that the quality of any qualitative data hinges on the utilisation of the three data collection techniques for a given study. Accordingly, the researcher utilised these three key techniques during the collection of data.

3.8 Sources of Data

Data was collected from both primary and secondary sources. For the purpose of this study, primary data are data collected by the researcher thus providing new and original research information whiles secondary data are data sourced through the review of existing information. Consequently, the primary data were gathered through open-ended interviews and observation

of processes, procedures and behaviours. The secondary data were sourced from the review of relevant documentations.

3.8.1 Primary Data

Face-to-face or one-on-one interview using open-ended interview questions was used as the central means of collecting primary data. The face-to-face interview ensures a high response rate and permits an in-depth questionnaire (Neuman, 2007). Seidman (2012) argues, that in a qualitative study, interviews serves as the basic means through which an inquirer obtains information about the experiences of people involved in the phenomenon under study. The interview questionnaire was patterned along the theoretical framework used for the study, thereby helping to focus the interaction with respondents towards finding responses that would help answer the research questions (see appendix for interview guide). In addition, the study utilised observation as another means of collecting primary data. Neuman (2007) describes that during observation the inquirer consciously listens, pays attention and watches carefully to absorb all sources of information that answer the question “what is going on here”?

3.8.2 Secondary Data

Whiles on the field, the researcher employed data triangulation to obtain secondary data. Olsen (2004) suggested that in social science research, triangulation can be looked at in two perspectives namely methodology triangulation and data triangulation. For the purpose of this study, the later, data triangulation was used as a means of adding to the depth of the work hence the need to review public documents relevant to the study. Data triangulation means that apart from primary data, the researcher also relied on a review of public documents so that some claims made in the interview data can be validated (Olsen, 2004). This involved the requesting and reading of important documents such as the Audit charter, the Audit query, and Audit

reports. Documentation review served as additional evidence to responses obtained during the interview.

3.9 Data Recording Instruments

Prior to the collection of data, the researcher obtained letters of introduction from the Department of Accounting which was used to secure authorisation, authentication and identification of the researcher by the respondents' institutions. The interview guide was attached to the letter in order to give the respondents an overview of the data needed and ample time to plan for the interview. In addition, an informed consent was reached with the respondent to record the interview with a voice recorder. Although the researcher was finally permitted to use the audio recorders, the respondents in SOE A were reluctant from the onset. This implies that the primary tool used to collect interview data was the voice recorder. However, as qualitative research writers (e.g. Creswell, 2009; Neuman, 2007) advise, the study also utilised notes taking to record interview data. In addition, field observations and documented data were recorded through notes taking. Consequently, the notes were classified according to primary and secondary data. This strategy is consistent with the suggestions of Creswell (2009) that the inquirer must note whether the data is first-hand information from the study or second-hand information written by others. The data collection spanned a period of six months, from November 2015 to March 2016.

3.10 Data Analysis

Many qualitative researchers allude that one of the most difficult aspects of a case study design is data analysis which must simultaneously be undertaken while the researcher is on the field collecting data (Baxter & Jack, 2008; Levy, 2008; Sprinz & Wolinsky, 2004; Yin, 2004), and there is usually information overload (Kohn, 1997). Being mindful of this, the inquirer repeatedly talked to the data in order to develop useful themes that are consistent with the

objectives of the study. During the analysis of data, the inquirer read over and over the transcribed interviews together with documentations and field notes until some quotations became more powerful leading to the development of themes. This practice is consistent with suggestions by (Kohn, 1997) who writes that the existence of a large amount of data implies that the inquirer must employ different techniques to organise and systematically present information during analysis of case study. Moreover, the inquirer was still mindful of the theoretical framework for the study which has been discussed in the next chapter.

3.11 Background of selected Cases

This section presents a background of the cases selected for the study. As indicated earlier, three SOEs were selected making up three cases for the study. The SOEs are anonymously labelled as A, B, and C for the purpose of this study. This is consistent with the ethical agreement between the inquirer and the respondents' institutions.

SOE A

SOE A was established in 1950 in the then Gold Coast as a subsidiary of a British company to operate in the West African Sub-Regions. However, after Ghana gained independence from the British government, the operations of SOE A was streamlined to the Ghanaian borders. By 1962 the Government of Ghana acquired SOE A from its private owners and in 1971 it became a statutory corporation under a legislative instrument, 1971, LI 709, which complied with the Statutory Corporation Act, 1964 (Act 232). Based on the Statutory Corporations (Conversion of Companies) Act, 1993, Act 461, SOE A was further changed from a corporation to an autonomous private limited liability company registered under the Companies Code, 1963, with Government of Ghana being the sole shareholder.

Currently, SOE A is one of the strongest companies in its industry. It generates its own income and funds its own operations while paying a dividend to the Government of Ghana. It is one of

the few SOEs that has successfully installed an integrated IT software over their operations and processes.

SOE B

SOE B is a limited liability company fully owned by the Government of Ghana. Its operations are under the Ministry of Energy (ME). SOE B was incorporated in February 1997 under the Companies Code, 1963. Prior to its incorporation, it was formerly operating as a department established in April 1947 and later became a division in 1962. In 1967, SOE B was converted into a state corporation by NLC Decree 125.

Currently, SOE B is one of the two firms operating in the industry and both are state-owned. However, SOE B has a bigger market share with a customer size of 2,612,007 as at 2013. A review of the annual reports of SOE B indicates that for the past decades it has not declared or paid a dividend to the government of Ghana though it always receives funding from the government. The annual report also indicated that from the period of 2001 to 2013 SOE B has continuously been incurring losses. For instance, the 2013 annual report showed that the company made a net loss of GHs 206.25 million compared to GHs108.79 million net loss in 2012.

SOE C

In 1965 SOE C was established as a legal public utility corporation under an Act of Parliament (Act 310). Just like other SOEs, it was converted into a state-owned limited liability company under the Statutory Corporations (Conversion to Companies) Act 461 of 1993 as amended by LI 1648. Thus, SOE C became a limited liability company in July 1999 with the Government of Ghana being the sole owner. Although SOE C has gone through several reforms (including a PPP arrangement from 2005 to 2011), its performance is still below targets thus, SOE C has

never break-even in its operations left alone making a profit to pay a dividend to the government of Ghana.

Currently, SOE C receives funding for its projects from the government of Ghana (about \$2 million yearly) and external donor agencies support (about \$30 million yearly). It is also the only firm operating in its industry thus enjoying a monopoly.

3.12 Background of Respondents

The study examined the factors influencing IA effectiveness in SOEs in Ghana and thus, the views and opinions of the Chief Internal Auditors (CIAs), Internal Audit Managers (IAMs) of the selected cases were crucial in realising the objective of the study. A total number of seven respondents were interviewed from the three selected cases. These comprised of the Chief Internal Auditors (CIAs) at the headquarters and Internal Audit Managers (IAMs) at the regional levels of the selected cases. With regards to SOE A, the IAF has two divisions- Operational Audit Function (OAF) and Financial Audit Function (FAF). Consequently, three respondents were interviewed. These are the CIA and two IAMs who are in charge of operational audit and financial audit. In SOE B and SOE C, there is no such division between financial and operational audit thus the CIA and an IAM were interviewed in each SOE.

The respondents were selected and interviewed based on their experiences and the relative importance of their role in the implementation of IA policies and procedures. To emphasise this, the inquirer gave more attention to the number of years the respondents served in their respective organisations and professional qualifications. The table below provides a summary of the background of respondents.

Table 3.2 Summary of Background of Respondents

SOE	Designation of respondents	Years of experience	Length of interview
A	1. CIA	Over 20yrs	2hrs
	2. FAM	Over 9yrs	1.45hr
	3. OAM	Over 11yrs	1.30hr
B	1. CIA	Over 20yrs	2.5hrs
	2. IAM	Over 17yrs	3hrs
C	1. CIA	Over 22yrs	1hr
	2. IAM	Over 18yrs	3.5hrs

3.13 Ethical Considerations

Throughout the data collection process, the inquirer was able to identify and address all ethical issues that cropped up especially in establishing contact with the respondents. First of all, the respondents' institutions demanded an introductory letter from the inquirer's school to identify and authenticate the inquirer's personality. Secondly, an open-ended interview guide stating the objectives of the study and preliminary interview questions was sent to the respondent in about two weeks before the scheduled interview dates. In addition, an express consent of each respondent was obtained for the purposes of recording the interview with a voice recorder. Finally, as indicated earlier, the inquirer assured the respondents' and their institutions' anonymity thus using labels to represent the specific institutions and respondents.

3.14 Chapter Summary

This chapter discussed in detail the methodology of the study with emphasis on the inquirer's research paradigm, the design for the study and the study strategy. Issues relating to data collection and management were discussed in detail. The specific areas highlighted include how data was gathered, recorded and analysed. The chapter also presented how the inquirer

dealt with ethical issues confronted during the data collection period. The next chapter looks at the theoretical framework adopted for the study.



CHAPTER FOUR: THEORETICAL PERSPECTIVES AND FRAMEWORK

4.1 Introduction

This study is the first empirical study that adopts the resource-based theory in the study of IA effectiveness. The aim of this chapter is to ground the study within the theoretical gap found in the literature by discussing the pros and cons of using these theories. This discussion is very important since 1) it shows how the study links to adopted theories, methodology, data gathered and data analysed, 2) it provides an integration of the resource-based theory within a different context such as public sector setting.

To achieve this, the chapter has been divided into three main strands. The first strand discusses some common theories used in the study of IA effectiveness with particular attention to their strengths and weaknesses. The second part discusses the theoretical framework chosen for this study which is a combination of the institutional theory and resource-based theory. The final section deals with the chapter summary.

4.2 Theories Adopted IA Effectiveness

Review of extant literature show that there is no precise theory that fully explains internal auditing and its effectiveness (see e.g., Adams, 1994; Ahmad, 2015; Al-Twaijry, Brierley & Gwilliam, 2003; Dittenhofer, 2001; Endaya & Hanefah, 2013; Goodwin-Stewart & Kent, 2006; Sarens & Abdolmohammadi, 2011; The Institute of Chartered Accountants of England and Wales, 2005). In relation to this observation, Endaya and Hanifah (2013, p.1) highlight that “... this could be partly because there is a lack of sufficient attention to theories which could serve to build a theoretical framework of IA effectiveness”. Consequently, some of the theories that have been so far adopted in IA effectiveness literature are discussed below.

4.2.1 Agency Theory

The agency theory explains that in several contractual settings, there are agent-principal relationships such as management and organisation(s) owners, employer and employee, lawyer and client, buyer and supplier, state and ambassador, constituents and elected representatives, and many more (Eisenhardt, 1989; Jensen, 1994; Linder & Foss, 2013; McColgan, 2001; Delves & Patrick, 2006). This theory emerged to identify and resolve two major problems associated with the principal-agent relationships, namely, a) conflicts between the desires and goals of principal and agent, b) the difficulty and usually expensive efforts that the principal has to make to monitor the conducts of the agent (Eisenhardt, 1989; Fama, 1980; Jensen & Meckling, 1976). Similarly, Delves and Patrick (2006) succinctly writes that the proponents of the agency theory identified the principal's problem, the agent's problem, and policing mechanisms and incentives as the problems associated with principal-agent relationships.

Traditionally, the applications of this theory focus on the shareholder-management relationships, in which there is the divorce of ownership (principal/shareholders) from the management of production inputs thus creating principal-agent problems identified above. Under this arrangement, the owner is availed with the option of monitoring, or providing incentive mechanisms or using both mechanisms to minimise the agency problem (Jensen & Meckling, 1976). Corporate governance emerges as one of such arrangements through which the shareholder can monitor management activities and or provide incentives to management so that management would align its interest to that of the principal (Jensen, 1994).

The monitoring mechanisms are intended to curb or deter the agent's discretionary powers and include surveillance and or giving specific directives or tasks while the incentive mechanisms are motivational tools such as financial rewards, information disclosures and prospects of sanctions and preferences that agree with the shareholders desires or goals (Delves & Patrick, 2006; Jensen & Meckling, 1976; Jensen, 1994).

On the other hand, management is also faced with making decisions that either maximises its interest or the interest of shareholders or both especially when they do not coincide by incurring bonding costs such as limitations on its power, malfeasance and foregoing nonmonetary benefits (Delves & Patrick, 2006; Jensen & Meckling, 1976).

Empirically, the agency theory has been applied in corporate governance tools such as auditing but with the main focus on external audit (see e.g., Duits, 2012; The Institute of Chartered Accountants of England and Wales, 2005). Only a few researchers adopted the agency theory in research in internal audit and the factors that influence its effectiveness (see e.g., Adams, 1994; Endaya & Hanefah, 2013; Peurseem & Pumphrey, 2005). Adams (1994) observes that management incurs bonding cost such as IA in order to communicate to shareholders that they are acting in accordance with their contract agreement, thereby securing their positions.

The existence of few studies in IA using the agency theory is seen as a major criticism against the agency theory since it only focuses on shareholders and management, neglecting the influences of other stakeholders (Ahmad, 2015). Similarly, Mihret, James, and Mula (2010) argued that the limited research in the area of the internal audit could be attributed to neoclassical theories such as the agency theory since they do not provide in-depth information when looking at IA in diverse contexts and perspectives .

4.2.2 Institutional Theory

The institutional theory is a paradigm that is used to analyse social phenomenon such as organisations and it perceives the social world as made of institutions that set conditions in action (Lawrence & Shadman, 2008). This theory is the commonly adopted theory so far in internal audit research (see e.g., Ahmad, 2015; Endaya & Hanefah, 2013; Arena, Arnaboldi & Azzone, 2006; Mihret, Mula & James, 2012). The institutional theory emphasises that the institutional environments influence the internal structures and processes of organisations

hence organisations keep changing their arrangements as a result of changes in their environment (Meyer, 2006).

In the neo-institutionalism, Meyer and Rowan (1977) argue that modern organisations exist in institutionalised contexts made up of programs, techniques, services, products, policies and professions which function as myths. They also argued that organisations ceremonially adopt and adapt to these social phenomena because they are perceived to generate rationality. Therefore, organisations would want to gain legitimacy, resources, success and survival by aligning their structures to these formalised practices and procedures from their environment (Lawrence & Shadman, 2008; Meyer & Rowan, 1977).

Again, DiMaggio and Powell (1983) analysed the institutional actors that forces organisations to be similar to each other in practice and form- institutional isomorphism. They identified three kinds of isomorphism namely coercive, normative and mimetic. Organisations are exposed to formal and informal pressures from governments, other organisations or other environmental expectation- coercive isomorphism; organisations, when faced with uncertainty from their environment, tend to model the structures and practices of other organisations that are perceived to be successful in their field- mimetic isomorphism; organisations also tend to conform to standard practices as a result of consultation or professional bodies (Lawrence & Shadman, 2008; DiMaggio & Powell, 1983). Lawrence and Shadman (2008, p.2289) underscore that “institutions are not everywhere, are not for everyone... rather they are relevant in specific institutional context”. This is one of the reasons for the popularity of this theory in internal audit literature, especially when considering IA effectiveness.

Empirical researchers in IA effectiveness argue that the concept of IA effectiveness means different thing to different people in different times and different places hence context specific (Arena et al., 2006; Arena & Azzone, 2007; Al-Twaijry et al., 2003). Consequently, the

institutional theory provides better analysis towards understanding the external factors that influence IA and its effectiveness (Ahmad, 2015). This notwithstanding, the institutional theory has been criticised on account of its failure to provide sufficient information about the internal factors that influence IA and its effectiveness (Ahmad, 2015).

4.2.3 Resource-Based Theory

This theory is one of the prominent theories in strategic management research. It focuses on how organisations link their strategies with their internal resources and capabilities to create and sustain competitive advantage (Akio, 2005; Grant, 1991). Wernerfelt (1984) and Grant (1991) clarify the distinction between resources and capabilities. They defined resources to include capital equipment items, finance, patent, brand names, skills of individual employees, in-house knowledge of technology, efficient procedures, trade contacts, etc., which serve as inputs into the production process while capability is the ability of the firm to put these resources into productive activity. Grant (1991) clarifies the distinction by hinting that “while resources are the source of a firm’s capabilities, capabilities are the main sources of its competitive advantage” (Grant, 1991: p.119). Thus, resources could be seen as a collection of a firm’s strength or weakness (Wernerfelt, 1984).

An important contribution of this theory is its ability to identify and categorise firm’s resources. Consequently, financial resources, physical resources, human resources, technological resources, reputation, and organisational resources have been identified by Grant (1991). Barney (1991: p.102) explains that:

“Human capital resource is the managers and other employees’ characteristics such as training, judgement, intelligence, relationships, experience and insight while physical capital resource includes firm’s technology, plant and equipment, geographical and access to raw materials; and organisational resource includes a firm’s formal and informal planning,

controlling, and coordinating systems, formal reporting structures, as well as informal relations among groups within a firm and between a firm and those in its environment”.

Resource-based theorist indicate that resources that create and sustain competitive advantage must be valuable, rare, imperfectly substitutable and perfectly inimitable (see e.g., Akiyo, 2005; Majoor & Witteloostuijn, 1996), thus not all these resources can create sustained competitive advantage (Barney, 1991). Broadly speaking, it can be observed that organisations’ resources are either tangible, intangible or capabilities (Kapelko, 2005). This study thus groups organisational resources in accordance with this latter category and this depicted in the table below.

Table 4.1 Resource categories and some examples

Resource category	Examples
Tangible	Firm’s physical technology, firm’s plant and equipment, financial assets, geographical location of firm and access to raw material
Intangible	Intellectual property rights (such as trademarks, patents, copyrights, registered designs), company reputation, trade secrets, know-how of employees, organisational culture, firm’s databases, formal reporting structure, formal and informal planning, controlling and coordinating systems, norm, procedures and guidelines, internal organisational structure, customer loyalty, brand names
Capabilities	High-quality production, high level of innovation, lean manufacturing, fast product developments, trust between management and workers, customer linking, channel bonding, superior technical skills, managerial judgement, financial management, teamwork, cost control, technology development, etc.

Source: adapted from Kapelko (2005: p.12)

The extant literature argues that tangible resources are easy to duplicate by competitors hence they offer a very little sustained competitive advantage (e.g. Barney, 1991; Grant, 1991). On the contrary, intangible resources are argued to be the major source of gaining sustained competitive advantage (Colbert, 2004; Kapelko, 2005). For instance, a recent study by Kapelko

(2005) shows that there is a positive relationship between intangible resources and firm performance in Spanish textile companies. Again, Colbert (2004) argues that firm's human resource capital and practices (which are examples of intangible resources) are very key in gaining a sustained competitive advantage.

Review of IA literature indicates that there is no empirical study that utilises the resource-based theory though it was suggested by Ahmad (2015) for a future research direction. This study focuses on a theoretical framework that combines the institutional and resource-based theories as a response to the issue of limited theories in internal audit research (e.g. Endaya & Hanefah, 2013).

4.3 Theoretical Framework

This current study adopts the theoretical framework developed by Ahmad (2015) which combines the strengths of the institutional theory and the resource-based theory to determine the factors that influence IA effectiveness. The framework leans on the institutional theory to ascertain and explain the external factors while the resource-based theory helped to capture and explain the internal factors that influence IA effectiveness.

4.3.1 The External Factors

The external factors are factors within the external boundaries of an organisation but have a significant influence on its internal practices. The three forms of institutional isomorphism have been used in determining these external factors. Thus, the external factors are coercive isomorphism, mimetic isomorphism, and normative isomorphism.

Coercive Isomorphism

Coercive isomorphism explains that IA effectiveness is greatly influenced by the existence of government law and regulations regarding the internal audit. IA is likely to be effective in jurisdictions where the government through regulatory bodies and enactments mandates the

practice of internal auditing than where IA has no legal backing. In support of this argument, Al-Twaijry et al. (2003) studied the development of IA in Saudi Arabia using institutional theory. They found that IA was not well developed and suggested that the government should coercively encourage organisations to establish IA departments. Similarly, Arena et al. (2006) studied IA in Italian organisations using a multiple case study of six Italian firms. Their findings show that coercive pressures of governments such as legal requirements dominate the establishment of IA department. Again, Arena and Azzone (2007) used a mixed method approach to study internal audit adoption and characteristics of IA departments in Italian companies and found that some companies established their IA departments in compliance with rules and regulations. These rules and regulations relate to specific industry requirements and listing requirements.

Mimetic Isomorphism

Mimetic isomorphism relates to the role of organisational size, where smaller organisations model their internal structures, processes and practices to conform to larger organisations which are perceived as successful. Arena et al. (2006) found mimetic behaviour among IA adoption and practice in Italian firms where smaller companies model their IA activities similar to the larger companies. Similarly, the study by Arena & Azzone (2007) confirmed IA was common in larger organisations than in smaller organisations. Their findings show that the size of the organisation was critical in determining IA adoption and structural characteristics hence larger organisations adopted IA frequently than smaller ones. They also found that for non-IA adopters, size is a key factor in for future adoption.

Normative Isomorphism

Normative isomorphism explains the relevance of professional bodies and consultants in shaping the IA functions in organisations. Through the professional standards, professional bodies such as IIA, ACCA and ICA play important roles in developing effective IA function.

For instance, as part of their recommendations, Al-Twaijry et al. (2003) hint that the government should create a regulatory body that will ensure that the professional standards and professional bodies such as IIA can operate. They also suggest that that regulatory body must help professional bodies design and promote the study of IA courses in tertiary institutions which could lead to normative isomorphism in the future. Moreover, the findings of Arena and Azzone (2007) show that in Italian companies, most IA adopters are also members of the IIA. Consequently, the IIA influences IA functions by organising training practices and certifications to its members. The IIA also influences the internal control models adopted by these organisations.

4.3.2 Internal Factors

The internal factors are factors within the organisation (i.e. firm specific) that influence IA effectiveness. From the resource-based theory, these internal factors have been grouped into four namely organisational characteristics, departmental characteristics, departmental characteristics, employee characteristics and managerial practices (Ahmad, 2015).

Organisational Characteristics

Organisational characteristics include factors such as level of loan, financial performance, public or private, and risk exposure. Carcello, Hermanson and Raghunandan (2005) studied the factors associated with US public companies investment in IA and found that 1) investments in IA was greater in companies with greater levels of loan in order to mitigate high agency costs, 2) IA budgets are higher in companies with higher operating cash flows than companies with lower operating cash flow, 3) total IA budget is positively related to company risk and ability to pay for monitoring. Also, Goodwin (2004) found that in New Zealand and Australia, IA status in public sector organisations is higher than that of private organisations. Moreover, the investments in IA is positively linked to the level of company risk exposure (Mihret et al., 2010).

Departmental Characteristics

Departmental characteristics relate to factors such as the size of IA department, independence of IA departments, IA staff composition and physical and technological resources. IA scholars argue that the size of IA function (i.e. number of employees directly involved in IA functions) is positively related to its effectiveness since IA staff will not be bog down with work overload (see e.g. Arena & Azzone, 2007, 2009). The independence of IA function is crucial to IA effectiveness. Cohen and Sayag (2010) found that in Israeli companies, there is a positive relationship between IA independence and IA quality of work (which is a proxy for IA effectiveness). They also argue that IA staff must be trained in areas that go beyond just accounting and auditing to be more effective since there was no relationship between IA effectiveness and professional proficiency.

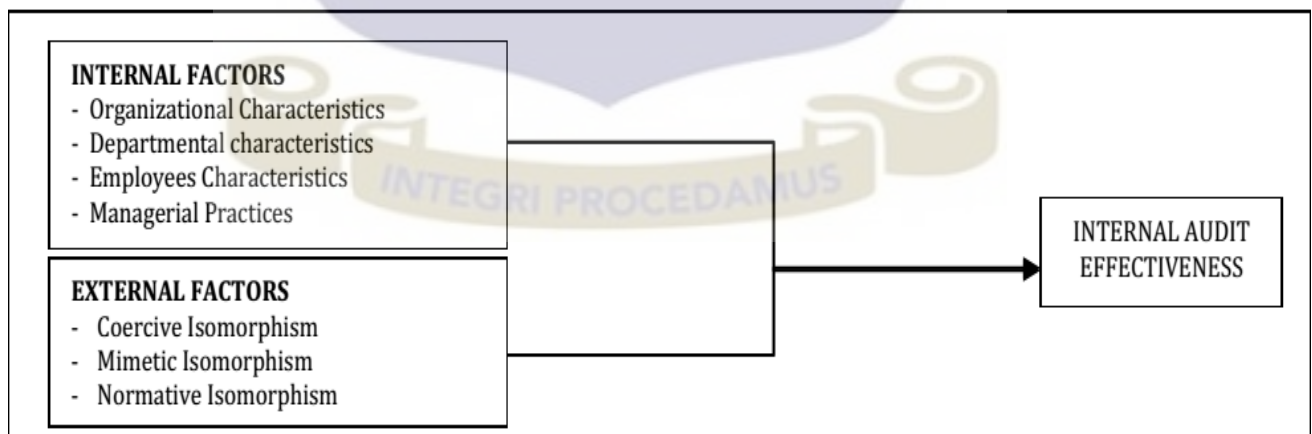
Employee Characteristics

Employee characteristics relate to human resource related elements of IA staff and IA auditees. Specifically, staff competence and quality of work, as well as the relationship between IA function and auditees, are identified as factors that influence IA effectiveness. Arena et al. (2006) argue that IA department interaction with other departments enhances business process and collaboration but the hostile relationship and suspicion make it difficult for IA departments to assist in the business process. Similarly, Onumah and Krah (2012) studied barriers and catalysts to effective internal auditing in Ghanaian public sector and found that there is a role misconception concerning IA duties hence poor IA auditee attitude and cooperation thus obscuring IA effectiveness. Consistently, Mihret and Yismaw (2007) argue that auditee attribute has some influence on IA effectiveness.

Managerial Practices

Managerial practices reflect the role of management towards ensuring IA effectiveness. This includes top management support and extent of audit committee interaction with IA function. For instance, Mihret and Yismaw (2007) conclude that top management support was one of the two most important factors that influence IA effectiveness. They argued that the poor attitude of top management towards audit reports and recommendations, demotivates IA staff to improve the quality of work and develop a career in internal auditing. Also, Cohen and Sayag (2010) found that perceived top management support is the predominant factor in AI effectiveness. They emphasised that there is the possibility that all the other factors may be derived from top management support. Similarly, Onumah and Krah (2012) found that IA was not effective since there was a lack of top management ownership of the IA function. The provision of physical and technological resources is also crucial for IA effectiveness. Moreover, the extent of interactions between the audit committee and IA function influences IA effectiveness (Arena & Azzone, 2009).

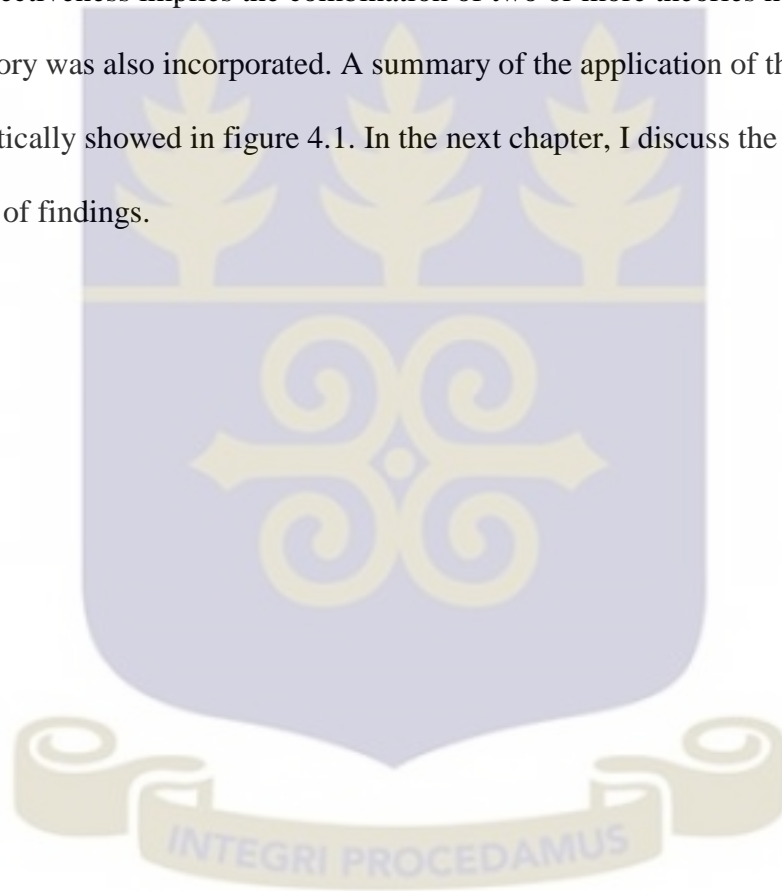
Figure 4.1 Adopted Theoretical Framework



Source: adopted from Ahmad (2015).

4.4 Chapter Summary

This chapter discussed some relevant theoretical underpinning in IA effectiveness research. Thus, the agency theory, institutional theory and resource-based theory were discussed. This chapter showed that there are limited theories in IA research and there is the need to incorporate some existing theories. Consequently, this chapter argued an empirical study in IA effectiveness using resource-based theory. However, understanding the factors that influence IA effectiveness implies the combination of two or more theories hence the institutional theory was also incorporated. A summary of the application of the two theories was diagrammatically showed in figure 4.1. In the next chapter, I discuss the data analysis and discussions of findings.



CHAPTER FIVE: DATA ANALYSES AND DISCUSSIONS OF FINDINGS

5.1 Introduction

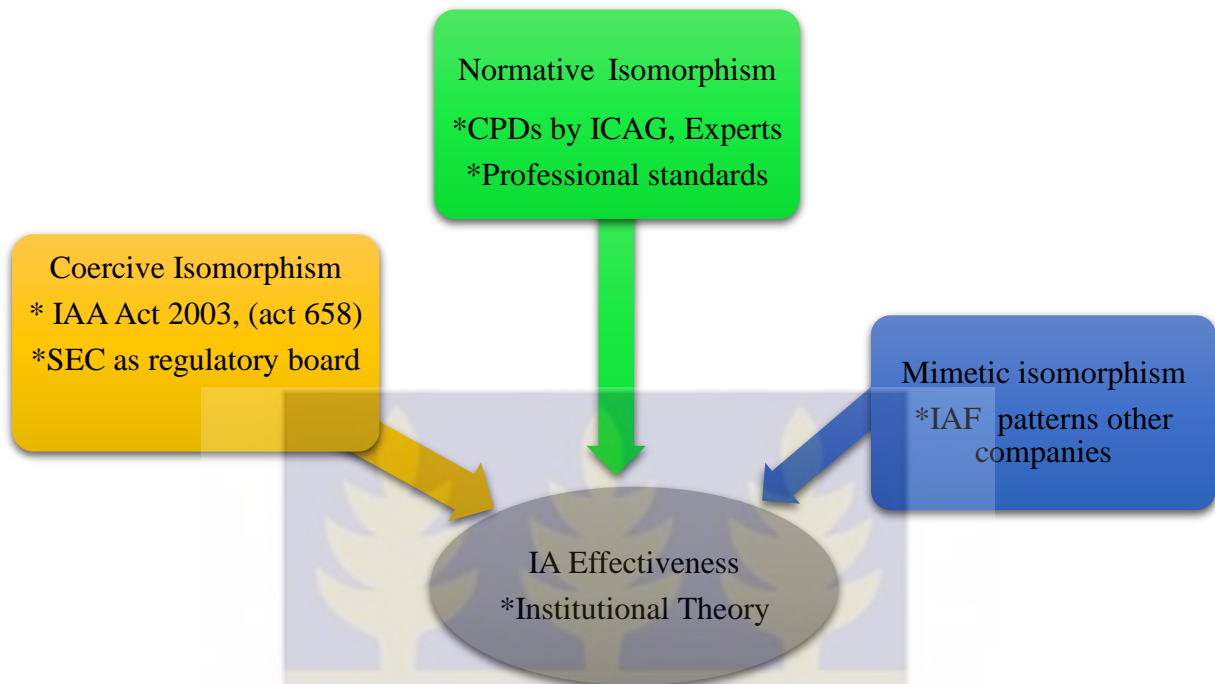
This chapter presents the analyses and discussions of results from field data which comprises of interview, archival and observation of processes and procedures in relation to the objectives of the study. The data answer the following research questions; what are the external and internal factors that influence IA effectiveness? How do these factors influence IA effectiveness? Why are these factors critical to IA effectiveness? How do the internal and external factors link together?

The chapter has been categorised into four broad sections namely; external factors that influence IA effectiveness; internal factors that influence IA effectiveness; linking the external and internal factors, and chapter summary. The first three sections comprise the major thematic areas identified from field data. This was based on the theoretical framework employed thus all major themes are made up of several sub-themes that emerged from data collected. Embed in the discussions of findings are extant literature that is either consistent or inconsistent with the findings of this study.

5.2 External Factors that Influence IA Effectiveness

External factors are the elements within the external boundaries of the organisation that have to impact on its internal process and programs. Drawing from the institutional theory, the evidence from the findings revealed three levels of isomorphism as the major external factors that influence organisational IA effectiveness. These are coercive isomorphism, mimetic isomorphism, and normative isomorphism. The relationship between these three factors has been pictured in the figure blow:

Figure 5.1: External Factors that Influence IA Effectiveness



Source: Author's own construction, 2016

5.2.1 Coercive Isomorphism

The practice of IA in the Ghanaian public sector and for that matter, SOEs dates back to the colonial era, when most of these SOEs were established, but was characterised by the lack of legislative authority and independent status. As a result, the government in 2003 recognised the need for a legal and regulatory authority for the establishment and practice of IA in the Ghanaian public sector. Consequently, the Internal Audit Agency (IAA) Act, 2003 (Act 658) was passed to ensure the establishment of the IAA as a regulatory body responsible for the establishment and practice of IA across the Ghanaian public sector organisations. Therefore, most SOEs are compelled to establish IAFs and ensure their proper functioning. In addition, SEC which functions as a permanent external auditor for most of the SOEs also has a responsibility to ensure that SOEs establish IAFs.

Based on documented evidence and interviews from respondents, the results show that the passage of Act 658 brought life into the practice of IA in the SOEs sector. It gives the IAFs the legal power to undertake their functions and also raises the status of IAF within the SOE sector. In SOEs B and C for instance, the Act is the major backbone of the practice of IAF. An IAM in SOE B recounted that:

“In fact, the government regulatory framework really influences our functions. That is what we base upon because it remains as the source that we quote. The Internal Audit Act plays a major role which more or less to me it forces every SOE to set up an internal audit function/department. That is our foundation, without the act we would not have been in existence and that gives us the audit charter to empower us to perform our audit function. Because, if we go to the other departments or other functions to ask of a particular book or a record to investigate or any information and they fail or they are trying to hesitate to release the document we have the right to persist and if they want to insist, we only quote the act that empowers us and the act is a law so we always operate under the act.”

In SOE C, an IAM adds that:

“We use the Internal Audit Agency Act to work and there has not been any change. We go by the government regulations, the internal audit act since it is a requirement.”

However, data gathered from audit managers of the three SOEs disclosed that the IAA which is the body that supervises IA practice in the Ghanaian public sector has little influence when it comes to IAF in the SOE sector. Thus, the IAA normally focuses on the central government agencies and departments as well as the metropolitan, municipal and district assemblies (MMDAs). One of the IAMs remarked:

“The Internal Audit Agency (IAA) personnel do not interact with us. Although we use the Internal Audit Act to work, but as to whether the personnel from the agency will come to make a follow up on that, then that does not exist”.

Again, it was found that coercive elements were minimal in SOE A. This is because SOE A is one of the private companies established in the pre-independence era but was converted to an SOE after independence, hence it still functions like a private company though wholly owned by the government. For instant, an IAM noted:

“The government does not influence the practice of internal audit here. We do not apply the IAA Act, neither do we often interact with the IAA personnel. This is because we are a limited liability company but with 100% government share ownership.”

Thus this finding is inconsistent with the general perception that the IAA has oversight responsibility in all public sector organisations and that Act 658 is applicable in all public sector organisations in Ghana (e.g. Onumah & Krah, 2012). This finding showed that not all SOEs apply the requirements of Act 658 nor receive direct supervision by the IAA. It, therefore, intensifies the argument for context analysis of the factors that influence IA effectiveness.

5.2.2 Normative Isomorphism

Analysis of field data suggests that the establishment of IAF in the SOE sector prior to the promulgation of Act 658 was largely due to the efforts of consultants, experts and professional bodies who were engaged to deliver services through outsourcing, professional training and external audits and assurance. During those periods, the IAFs were only functioning as subordinate units under the accounts or finance division. These professional bodies include the Institute of Chartered Accountants Ghana (ICAG) and the institute of internal auditors (IIA) which collaborate to organise training programs for accounts and audit officers. Besides, accounting firms such as PwC, KPMG, Ernst & Young, Deloitte and other local firms are engaged to offer professional and expert advice on the establishment and the operation of IAFs.

An IAM in SOE B thus noted:

“We rely on the professional standards for our code of ethics because we do not have our personal code of ethics so we rely upon the general standards. In fact, one of them is the exit

conference and the opening conference. We learnt them from the professional standards. They explain that when dealing with your clientele or your customer you do not just jump to the person and say you are coming to perform an audit in their jurisdiction. At least, the ethics say that, inform the person in writing, discuss what you want to audit so there is that kind of cordial relationship between you and your clients. Now, after you have finished with your findings, discuss the findings with the person. For example, 'oh please this is what I have found'. Then let the person express his opinion. Let him comment on it, maybe there are some things to explain, there are some things to give to you and this is part of the professional standards."

Also, the SOE sector has received increased attention from professional bodies. In an attempt to ensure that SOEs are operating efficiently and effectively, the government through authorised bodies arrange for continuous upgrading and training programs for the IAFs. Consistent with the above findings, an IAM in SOE C underscored that:

"They [i.e. Professional bodies] contribute a lot. For instance, each year the IA staffs are invited for seminars, training and other conferences especially by the Institute of Chartered Accountants. They invite the internal auditors, they provide us with the newsletters and all those things to improve our knowledge and be abreast with things that are going on in the internal audit system so they have been helpful."

Moreover, the degree of normative isomorphism was relatively high in SOE A since its IAF does not rely on Act 658 but rather on the professional standards. Thus the establishment and practice of internal auditing are largely informed by the professional standards rather than Act 658. When asked how and why professional bodies influence IAF, this is what one of the IAMs emphasised:

"We rely more on the standards, the Internal Auditing Standards because it is a limited liability company. Also, IIA in 2014 came to organise a training on risk management. The way we present our report has changed because we attend courses, there is training organised, we had the training on reporting, we go to leadership training and that is equipping us."

5.2.3 Mimetic Isomorphism

IAFs practices modelled some successful organisations, particularly from the private sector. The results showed that IAFs in all three SOEs patterned how IA is practiced in other organisations that were deemed to have successful IAFs in operation. The respondents highlighted that they deemed those organisations as best practices hence copying them and most of these organisations are multinationals. For example one of the IAMs in SOE B remarked:

"We do not isolate ourselves from the best practices that we see in the other big companies. Because we have been having periodic external training even outside the country where we meet some of them and discuss prevailing issues in our respective areas together. So by sharing ideas with one another we learn some important practices from them. Some of us are even being sponsored to go for training outside the country when there is a new development in something that is new to the organisation or new to the department."

When asked why IAF models another institution, an IAM in SOE C noted:

"We look at international practices and sometimes institutions like KPMG, PwC and others come so we learn from them and we use them as our role model, as our benchmark to perform."

Besides, an OAM in SOE A stated that:

"What we are doing now is that we model the way these people behave- Nestle and others because we want to mitigate the risks that we are currently prone to. So we are trying to learn how they are able to manage them."

These findings confirm other studies that found elements of isomorphism in the practice of internal auditing in both public and private entities. For instance in Arena and Azzone (2007), the establishment of IAFs was influenced by external environmental pressures thus leading to three categories of IAFs in response to these pressures. They identified institutional IA adopters which are IAFs that fully exhibits all the three levels of isomorphism, normative IA adopters

which represent companies where normative pressures were stronger, and non-institutional IA adopters that reflect companies with least institutional pressures. However, from the results of this study the third category- non-institutional IA adopters were not found. It may be because all SOEs in the Ghanaian public sector are required to establish IAFs as enshrined in Act 658 while Arena and Azzone (2007) was based on Italian private firms. Besides, the findings confirm the need for strong government regulatory body that is capable of liaising with professional bodies to ensure IA effectiveness as suggested by Al-Twaijry et al. (2003).

5.3 Internal Factors that Influence IA Effectiveness

This section focuses attention on the factors within the specific organisations that influence IA effectiveness. That is the specific organisational resources and capabilities that blend to ensure IA effectiveness. Based on the resource-based theory, evidence from the analysis of data identified four of such resources and capabilities that could influence IA effectiveness. Consequently, four sub-themes were identified from the analysis of results obtained. These are organisational characteristics, departmental characteristics, employee characteristics and managerial characteristics. Also, these sub-themes have additional sub-themes which were developed as a result of continuous analysis and comparison of field data. The relationship that exists between these factors is shown in the figure below.

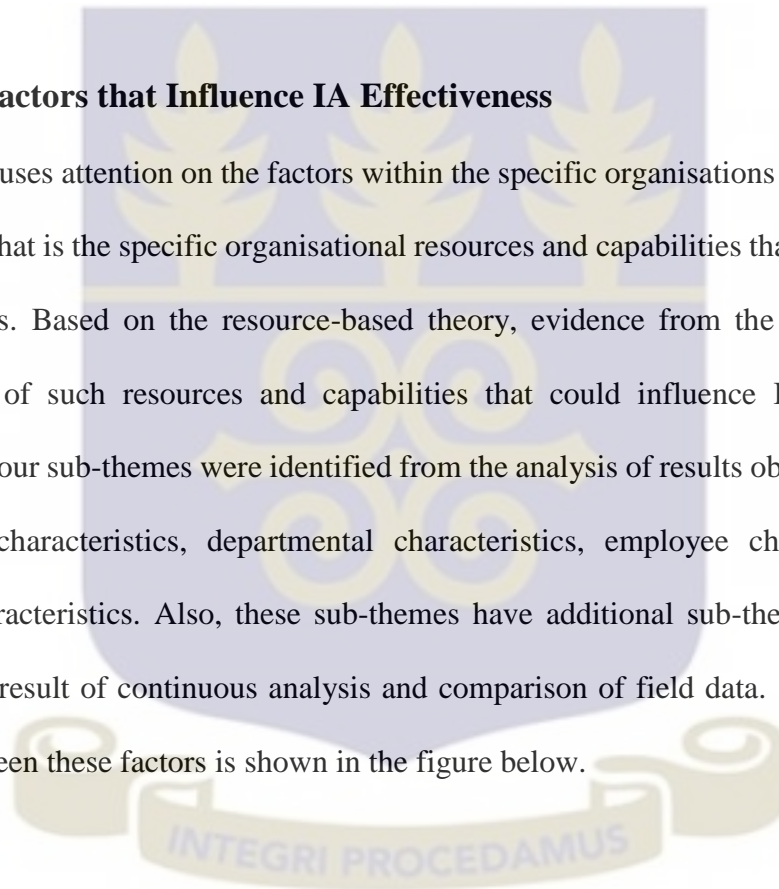
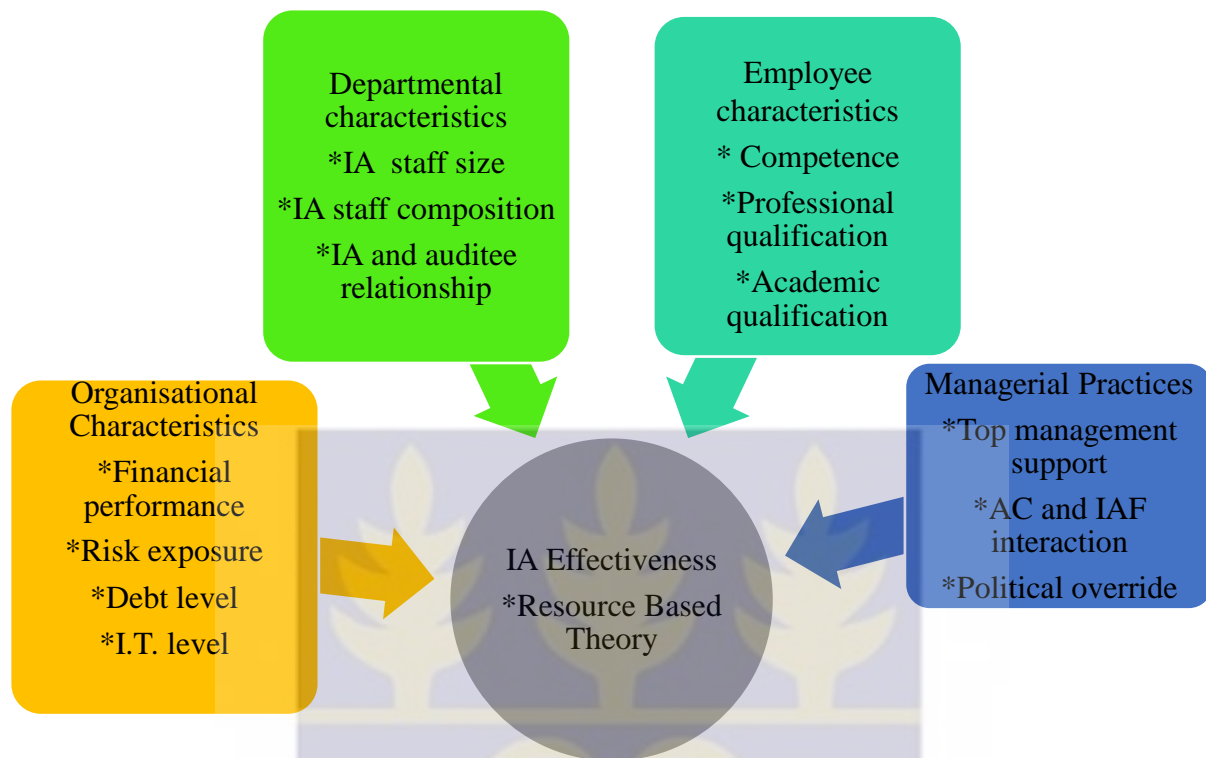


Figure 5.2 Internal Factors that Influence IA Effectiveness



Source: Author's own construction, 2016

5.3.1 Organisational Characteristics

The overall structure and resources availability to an organisation will have influences on how effective its functions such as IAF will be. From data collected, it was disclosed that the overall organisational characteristics such as financial performance, risk exposure, debt levels and level of IT usage of the SOEs, in this case, were perceived to have an influence on how effective the IAF can be.

Financial performance and debt level

IA plays both direct and indirect roles in the financial performance of an entity which also reinforces the integrity of management. The SOEs in this case study are supposed to operate on commercial basis thereby making profits and paying dividends to the state which is the sole shareholder. The financial performance, therefore, looked at whether these SOEs were making

a profit and how it influences IA. The findings of this study show that in all three cases, the availability of budget allocations to the IAFs was consistent with the entity's financial performance. Thus budget allocations to SOE A were relatively better than that of SOEs B and C. Also, the financial performance of SOEs B and C has been poor for more than a decade and this limits the resource allocations to their respective IAFs. Analysis of their annual reports showed that they have consistently been incurring losses for more than a decade. An IAM in SOE B revealed this:

“Actually, this company [SOE B] has not, for the past fifteen years that I have been with them, made any profit left alone even to break-even and our budget allocation is always small. Our losses which obviously is a public information has increased by about 40 percent.”

Consistently, an IAM in SOE C added that:

“We advise management so if the financial performance is good then is a credit to internal audit but currently, we are incurring losses so our budgetary allocation is sub-optimal, we need more to do more.”

However, in the case of SOE A, financial performance was relatively good thus, it has been paying dividends to the government of Ghana. The annual reports show that it consistently paid dividends to the government for the past five years. For example, a FAM remarked:

“We have been in good business for some time now and we pay dividends to the government since she is the only shareholder. Our budgetary allocations have been quite good, we get what we want for now.”

The evidence from the analysis of data revealed another way by which IAFs benefits from financial performance in all three SOEs. This form of benefit, called merit-based performance benefit requires that departments meet certain performance targets set by top management. Thus, each individual employee and their respective departments as a whole enjoy performance

bonuses when they meet their targets. One of the audit managers pointed out that this strategy has helped the IAF very well since measuring its direct impact on profit was difficult. When asked how this policy has improved IAF effectiveness, an IAM in SOE B recounted:

“We are happy with the current measure because it exposes which department is doing well and which is not. My department, for instance, was rewarded last year so we received performance bonuses and we hope to keep to meeting the targets. It is a good thing that the new management has instituted.”

In SOE A, this was what the chief internal auditor [CIA] said:

“What we do is, you are given merit increase based on your performance. I meant the department performance, the department as a whole and the individual so based on your assessment you get financial rewards, what we call merit-increase.”

This finding is consistent with the argument that organisations with better-operating cash flows invest more in their IAFs according to Carcello et al. (2005). On the contrary, the findings did not support the argument by Carcello et al. (2005), that organisations with high debt levels invest more in their IAFs to reduce agency cost since the investments in the IAFs of SOEs B and C were very low although their financial statements showed high debt levels. This is because it was found that the government most often contracts loans on their behalves hence low agency costs. Also, their high debt levels is coupled with persistent losses hence inadequate resource availability to the IAFs.

Risk exposure

The risk is the relative level of uncertainty that the organisation is faced with and IA has as one of its core duties to improve organisational risk assessment. Consistent with the extant literature, the level of risk exposure will determine the level of attention top management will give to the IAF. The results showed that the cases in this study face varying degrees of risk but their respective IAFs are not adequately positioned to minimise or mitigate the consequences

of these risks. Interviewees cited managerial override of controls and political circumventions as prevalent examples of weakness in controls. When asked how entity risk exposure influences IA effectiveness, the following remarks were given by an IAM in SOE C:

“We are exposed to high level of theft [of our machines, inventories, and products] so the IAF plays a critical role but we are not adequately empowered. Because if we [SOE C] are going to procure those machines and inventories, internal audit will ensure that it is not sole sourcing but competitive enough to ensure that we are getting the best out of it. But sometimes we are not given any prior notice. So the internal audit must be empowered.”

In addition, it was found that a pertinent risk is a managerial disregard of internal controls where those that have set up the controls are sidestepping it thus the IAF is seen as a thorn in the flesh when they raised any alarm. This was evidenced in an interview with an IAM in SOE B:

“I will describe the interference as intimidation and let’s say occupational hazard. This is because as an IAF we ensure that things are done right, meanwhile, somebody is trying to circumvent the controls and you are also insisting on your right.”

This situation was not different in SOE C where evidence from data detailed that top management regards the control processes as time wasting that inefficient. Top management, therefore, disrespect these controls claiming that they want things done quickly. According to the respondents, this situation does not usually bring the best results that will benefit the organisation if the controls were regarded.

Accordingly, an IAM in SOE C remarked:

“Management sometimes interferes because they would always want to do things in a short way or things that will convenient them. For instance, like we made mentioned of sole sourcing, you want things to pass through competitive bidding but management wants things quickly, they want things conveniently so going through competitive bidding wastes time so sometimes management takes decisions that affect the IAF. Management interferes by cutting things short,

they do not want to follow the procedure. Why because of convenience. But something like sole sourcing conflicts with the internal audit functions so there is management override.”

In order to understand the specific reasons behind the prevalence of top management disregard of the control processes, the study probed further to find out why the risk assessment procedures were weak and this is what an IAM in SOE B said:

“Because it is a state owned, there have been instances where so-called emergency calls from political circus require the operations department to go and do something and communication channel will be broken, protocols are broken so the audit is not aware at all.”

Besides, most of the IAFs are not properly informed when certain actions that require adherence to controls were involved. Interviewees indicated that they sometimes get to know some of these issues by chance or during informal discussions with colleagues in other departments.

Consequently, these findings disconfirm Carcello et al. (2005) and Mihret et al. (2010) which indicate that organisations with higher risk would invest more in their IAFs. This could be because, in the cases of these SOEs, the notion of public ownership makes top management relax their attentions on the risks their facing since there is no direct impact on their job security and emoluments.

Level of Information Technology

The emergence of information and communication technology has greatly influenced several organisational processes including IA. Most organisations have installed both hardware and important software that helps their departments to work effectively and efficiently. IT has therefore become an important strategic tool that impact IA effectiveness. From field data, the results showed that the level of Information Technology (IT) has an influence on IAF performance in all three SOEs. A CIA in SOE B noted:

“Now, IT has an influence on the financial recordings/ financial functions. Formally Payment Vouchers were prepared manually but now it is electronic. The workplace has become more IT based and because of the application software that is coming out now, it is simplifying the work of the financial function, so during the manual system, we were using the manual method to audit and now there is electronic which has changed our audit objectives.”

However the availability of IT infrastructure is not sufficient in SOEs B and C when compared with SOE A. In SOE B it was observed that the audit manager was using his personal laptop and printer in the regional office while in SOE C though there was a desktop computer, the IAF has no specialised software to undertake its activities. The interviewees jittered that management has not made any step towards purchasing such software though they requested for it. An IAM in SOE B consented that:

“Our IT system is weak so our work delays because we have to manually perform some of the duties. Our computers are currently on repairs and its keeping long.”

While in SOE C, an IAM remarked:

“IT resources such as desktop computers and laptops are available for us to enhance our work but what we need now is specialised audit software that will speed up our work because our operations have increased over time and we have huge customer size too.”

In SOE A it was found that important advancements have been made in the area of IT within the organisation and its IAF. An IAM in SOE A recounted:

“We have gradually moved from manual system to computerised system and we are installing a software called the IDEA which is used in auditing. We have the ACL but we have gone in for the IDEA.”

The respondent emphasised the need for the software because it was difficult for them to work efficiently and effectively manually since they have to deal with volumes of work. When asked why the focus on IT, an IAM in SOE A noted:

“It is to make us efficient and effective. This is because we have volumes of work and every time we have to manually get information. Also, the company has a new ORACLE software. So with this software coming in, it will help us in our work since in [SOE A] sometimes we have to make sure all the adverts are invoiced, paid for by customers, they are receipted and we have to check that so the volume of work have increased and we need that to help us. We have about 1300 subscribers and we have to go through their individual accounts and see whether some of them are dormant, some of them are not paying and all that must be checked. Some are being supplied and they are not paying and we need a software to check why. Manually we cannot do much that is why we want to go in for the software so that we will be able to scrutinise all these issues.”

This implies that as organisations increase in size and complexities, their risk exposures also increases thus IT have become a powerful tool that can be used to increase efficiency and effectiveness. IT is seen as crucial for IA effectiveness in these SOEs. The level of IT seemed to be least discussed in term of resources that are necessary for IA effectiveness in extant literature hence the findings of this study highlights its relevance.

5.3.2 Departmental Characteristics

The specific resources and capabilities available to an IAF in any organisational settings also influence its effectiveness. Some of the specific sub-themes identified under this category are IAF staff size, IAF staff composition and IAF relationships with auditees. The analysis of field data showed that these themes influence IA effectiveness in all three cases under consideration. Respondents disclosed that departmental characteristics are of high relevance because that is what enable them to perform their daily duties.

IAF staff size

The number of employees hired and working directly as internal auditors influence how effective the IAF may carry out its activities. Where the staff requirements are sufficient, IAF will be able to work efficiently and effectively. From the field data, respondents in all three

SOEs hinted the lack of required number of IA staff size, particularly at the regional and district branches. For instance, an IAM in SOE B lamented that:

“Oh yes! All over! Actually, we are understaffed. We are really understaffed. If the staffs are not there what do we do? We are under obligation that we are operating but if you look at the volume of work, and you look at the quantum of personnel, how effective we wish we could be, but we do not have the staff.”

Besides, an IAM in SOE C narrated that the issue of IAF staff size is of high concerns to them because they are very few and always bog down with works that could have been done at the district office but the lack of IA staff at the districts means those works must be done at the regional levels. During data collection, it was observed that the district accounts officer also acts as IA coordinator so he often has to travel to the regional office for audit works and approvals showing some conflict of interest.

When asked how and why staff size influence IA effectiveness, an IAM in SOE C added that:

“As it stands now, we do not have audit staff in the district so the regional staffs have to operate at both the regional and district levels. So it is like even though we want to be effective, but, every work that will be done at the district has to pass through the region for auditing. So the staff is not enough and it affects operations in the districts and the regions. If we were to have enough staff we would have had audit staff representing us in all the districts so that they will facilitate all those audit works.”

Due to the lack of IA personnel, it was observed that the cases under consideration have a centralised arrangement where the IA staffs are concentrated at the national headquarters. This phenomenon is actually what exists in SOE A in that the only IA department remains at the national headquarters and IA staffs have to travel to the regional and district offices in order to perform audit work. Accordingly, an IAM in SOE A accentuated that:

“We have regional branches without IA staff because all of them [IA staffs] are with the headquarters so we do not have auditors in the regions and districts. We are all here at the

headquarters so we rather travel to the regions and districts to perform audit work and this slows down our efficiency and how effective we want to be.”

The issue of inadequate IA staff as found in this research confirms the findings of Onumah and Krah (2012) who argued that one of the major barriers to IA effectiveness in then Ghanaian MDAs and MMDAs is the existence of inadequate audit personnel. Similarly, this finding is consistent with that of Alzeban and Gwilliam (2014) and Ahmad et al. (2009) in that the number of IA staff available have a direct impact on its effectiveness.

IAF Staff Composition

The responsibilities of IAFs have extended beyond the boundaries of traditional accounting checks and controls to include value creation through improved risk assessment procedures. Consequently, IA staffs are expected to possess skill and knowledge sets that enable them to achieve this objective. The results showed that IA staff composition in all the three cases is predominantly accounting bias since almost all of the IA staffs have a major study in accounting education. Concerning this, an IAM in SOE B recounted:

“The staff composition currently looks as if all of us are accounting bias meanwhile we do not only perform financial audit but we perform an operational audit which involves the other non-financial departments. So there is the need for us to get other disciplines as well and the new trend which is coming up is the IT which is the Certified Information System Auditor (CISA). This implies the need for us to get at least an expert in IT audit to be part of the staff so that we can have that kind of blend. So that is what we are looking up to now. But that is currently not available.”

Besides, it was also found that an accounting education (both academic and professional) is used as the basic hiring requirement for the IAFs. Respondents revealed that all potential junior staff employees are required to possess at least an HND or first degree in accounting while potential employees for senior ranks must have at least Master degree in accounting or professional qualifications in accounting. The respondents thus expressed the need to consider

other qualifications such as risk, economics, IT among others. For instance, an IAM in SOE C noted:

“This time, we emphasise that potential employees must hold at least first degree in accounting or commerce option. That is the first requirement. So we ensure that those employed in the audit section have an accounting background.”

In SOE A, the CIA stated:

“Yes, we need those with diverse knowledge to be able to do the work. We do not have any CISA staff but two of us are students. My immediate assistance and I are chartered accountants and most of the guys are on writing the professional papers.”

Consequently, most of IAF staffs have realised the need to be multi-skilled hence undertaking studies in other professional courses such as CISA. The respondents indicated that they are encouraged by management to take up this courses. They disclosed that there are incentives such as refund of fees paid and professional allowances for those who write and pass any paper.

A CIA in SOE A emphasised that:

“Staff members are therefore encouraged to prepare and sit for professional exams like the Certified Internal Auditor (CIA), Certified Chartered Accountant (CA), and CISA. So each auditor is responsible for continuing his own education and should belong to a professional body. The motivation from management is that every professional qualification you get, you are reimbursed for the cost. Every professional paper that you qualify at every stage, you are reimbursed and your subscription is being paid and you are given a professional allowance.”

The growing demand for a multi-skilled IAF staff in the Ghanaian public sector is rather a new phenomenon because a similar study by Onumah and Krah (2012) found that among the MDAs, there was no single IA staff with any professional qualification such as certified chartered accountant (CA). But the findings of this study showed that IAFs in the three cases studied have professional accountants.

IAF and Auditee Relationship

In IA literature, the auditees are seen as IA customers thus, IA customer relationship is critical to its effectiveness. The extent to which the IAFs communicate and share information with other departments are examples of IA customer relationships that influence IA effectiveness. Interviewees from all three cases expressed dissatisfactions with regards to auditee relationships especially in SOE A where the respondents see it as very problematic. The respondents cited that the auditees seemed not to understand the roles of the IAF so they usually perceive them to be intruders. Concerning these findings, A FAM in SOE A evidenced that:

“That is a problem area, some of them try to be very defensive in that when you give them a query, getting the response is a problem. Most of them do not understand the IAF, they feel we are policemen that want to catch them. Some of them will try to defend themselves and sometimes they delay in responding. This delays our reporting schedules. For instance, in our recently submitted report, most of the departments did not present their responses but the Managing Director was asking for the report so we submitted it like that.”

In SOEs B and C, the situation was relatively controllable since the respondents indicated an improved auditee relationship over the period. Interviewees cited continuous training, reliance on the professional code of ethics, and other strategies as the factors that helped improved the relationship. This has led to the somewhat cordial relationship among IAFs and auditees. Thus, these findings are similar to that of Ahmad et al. (2009) in that poor IAF relationship with auditees serves as a major threat to IA effectiveness.

5.3.3 Employee Characteristics

According to the resource-based theorist, one of the most valuable resources available to organisations is the human capital which comprises the competence, experiences and professional or academic qualifications of employees. Thus, the competence and qualifications of IAF staffs would have an influence on how effective it will operate. Responds from

interviewees revealed that in the past IAFs lacked professionals and competent staff members but currently there have been improvements. In line with this, an IAM in SOE C remarked;

“IA has really advanced because previously, the staff were not qualified, the composition of staff was not made up of qualified personnel. Initially, the audit unit was run by some clerks who eventually found themselves in the audit unit but without any qualification and experience. But with time the unit has to make sure it has been resourced with qualified staff to do independent work. Staffs are encouraged to undertake personnel development programs and other sandwich courses to make sure they are current.”

The ability of IAF staff to handle challenges and meet targets and objectives will depend on issues such as experience and self-confidence. In relation to competence, respondents in all three cases pointed out that they have several years of experience both within and without their respective organisations. From interview data, the least experienced respondent was four years in his current position as audit manager while the most experienced was 20 years in the current job.

Interviewed data also indicated that IAF staffs possess some professional and educational qualifications. From data gathered, it was observed that all interviewees were chartered accountants with some pursuing graduate studies and other professional qualifications. According to the respondents, their qualifications and experience determine their competence. For instance, a CIA in SOE A remarked:

“We have been improving the required competence of our staff by encouraging them to pursue higher qualifications and arranging training programs to cope with the professional standards since adherence to the standards improves our competence.”

5.3.4 Managerial Practices

Top management characteristics and support to IAF in the form of setting up Audit Committees (AC) with appropriate authority and resources to ensure continuous interaction with IAF, independence of IAFs, availability of other physical resources, are important resources and

capabilities that blend to influence IA effectiveness. The findings from field data showed that managerial practices in all three cases are weak. These weaknesses are expressed in the existence of puny Audit Recommendations and Implementation Committee (ARIC) systems, inadequate AC interactions with IAFs, lack of IAFs independency, inadequate physical resources for IAFs, and delays in implementation of audit recommendations.

In SOE C, respondents mentioned that the AC only exists as a formality but it actually does no job for the IAF. With regards to this issue, An IAM remarked:

“The AC, I think is relatively ineffective in [SOE C] so we hardly interact with the AC. It is just there as a structure but they hardly meet and this thing is quite apparent with most public sectors institutions.”

In SOE A and B respondents alluded that IAF interactions with AC occur on a quarterly basis even though audit reports are presented monthly. Moreover, top management usually delays in implementing audit recommendations and sometimes they do not implement at all. For instance, a FAM in SOE A said this:

“We submit our report on a monthly basis but we normally meet the AC each quarter and this sometimes is not consistent. Also, there is usually delays in implementing the recommendations so you have to keep repeating the recommendations until management sees the need to react to them.”

Besides, the level of IAF independence in SOE C was relatively poor because, during data collection, it was observed that a regional IAM was working under the Finance manager. The respondent indicated that he (that is IAM) sometimes act as the regional finance officer in the absence of the Finance manager. For instance, an IAM in SOE C noted:

“The other positions which can be seen as conflicting is sometimes I also act as the Regional Accounts Manager for my region.”

In all instances, respondents mentioned the lack of vehicles and office equipment such as safes and properly functioning networked computers as unfavourable situations that impact their effectiveness. An OAM in SOE A revealed that:

“Management support is there but the only problem is the dalliance in getting the responses so even though we are getting the support it is not whole.”

In SOE B, an IAM evinced that:

“By virtue of them [top management] being able to recognise the audit function as part of the organogram at the top level is a plus and they really acknowledge our report by taking it at the audit committee of the board. However, we still suffer from resources inadequacy like our vehicles which there is none for the IAF currently. Also, our internet system is very poor so we are really trying our best but without these things how can we be effective?”

These findings show that top management practices are essential resources that have an influence on IA effectiveness. In some examples, respondents referred to top management ties to political parties as threats to IA effectiveness since controls are not adhered to. Likewise, management deliberately syphons resources in order to interfere or ‘monitor’ the works of the IAF. With these situations, the effectiveness of the IA is hampered.

5.4 Linking the Internal and External Factors that Influence IA Effectiveness

The last objective of the study was to establish the relationship that exists between the internal and external factors. Consequently, evidence from data gathered revealed that while the internal and external factors operate to directly influence IA effectiveness, the prevailing external factors also influence the internal factors with a subsequent influence on IA effectiveness. This finding is consistent with public sector settings where organisations are usually established under an act of parliament.

From the analysis of data, it was found that the elements of coercive isomorphism (i.e. enactment of IAA Act; Act 658, establishment of SEC as SOEs regulatory body and permanent

external auditor) chiefly influence the organisational structure of the cases in this study. Evidence from documentations showed that the government plays key role in the appointment of the board of directors (top management), and the board oversees the establishment and functioning is IAFs in all three cases. Moreover, evidence from the analysis of data showed that the establishment of most of the IAFs (for instance SOEs B and C) was mandated by Act 658. Thus the act actually gave life to the IAFs in these SOEs. In relation to this point, an FAM in SOE A revealed that;

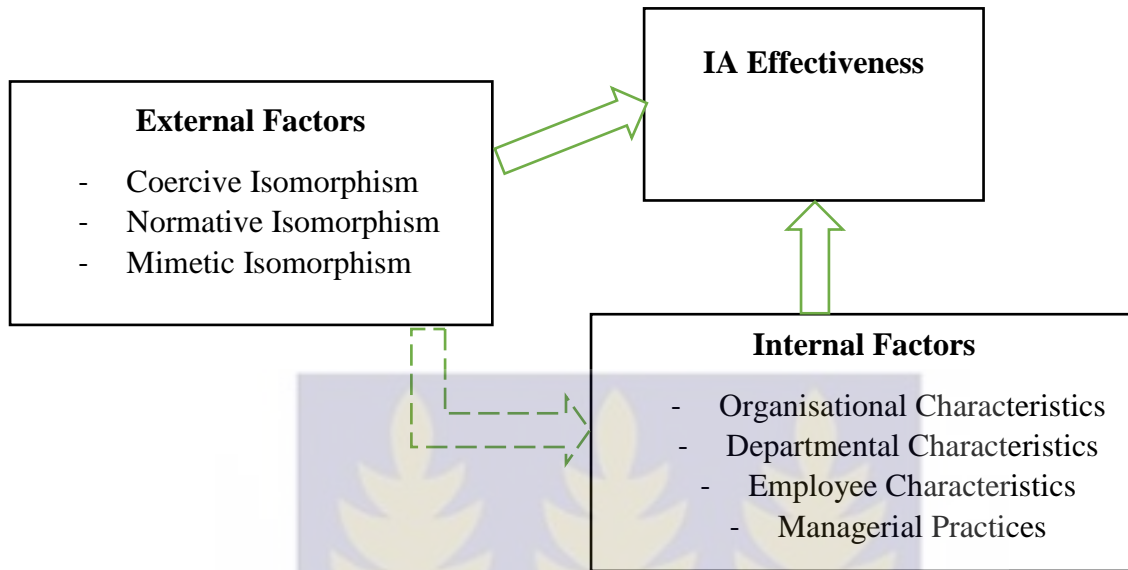
“The government does play an indirect role here. For instance the board is represented by the government so if there is any role that they [i.e. government] will play, it will be from the board because we do not interact with the government directly.”

Besides, the analysis of data revealed that normative pressures such as reliance on advices of professional bodies, organisation of CPDs, and training programs do not only directly influence IA effectiveness but also influence internal factors such as departmental and employee characteristics. Respondents indicated that though act 658 established the IAFs, its actual operations and the calibre of staffs required are influenced by the professional standards and professionals. Consistent with this finding, a CIA in SOE B stated:

“Now our recruitment focuses on people with professional and similar academic qualifications because we believe that as we are striving to be effective in our operations, we need the right calibre of staff.”

This evidence shows that top management of these SOEs perceive that professional bodies and academicians are responsible for training and providing the required human capital needs of the IAFs.

Accordingly, the adaptation of the theoretical proposition by Ahmad (2015) is depicted in figure 5.3 below.

Figure 5.3: Adapted Theoretical Proposition

Source: Adapted from Ahmad (2015)

5.5 Chapter Summary

The aim of this chapter was to present the results as obtained from the analysis of field data from primary and secondary sources in order to achieve the objectives of the study. From the above presentations, it has been evidenced that IA effectiveness is influenced by both internal and external factors hence the need for a comprehensive look at these factors. The analysis of results was based on adaptation of the theoretical framework that combines the institutional and resource-based theories for this study. Consequently, the analysis was presented in three broad sections being internal and external factors and linking the internal and external factors.

Concerning the external factors, it is proven in this chapter that, IAFs in SOEs have been influenced by the three levels of isomorphism, namely coercive, normative and mimetic. Thus, government regulations and regulatory bodies, professional standards and expert advice from consultants as well as modelling of other successful organisations were proven to contribute to IA effectiveness.

Focusing on the internal factors, it has been established in this chapter that organisational specific resources and capabilities are essential factors that influence IA effectiveness. Consequently, the chapter presented four categories of the internal factors, which are organisational characteristics, departmental characteristics, employee characteristics and managerial practices.

Moreover, the chapter established that, although the internal and external factors directly influence IA effectiveness, there is an indirect relationship between these two factors since evidence from data revealed that the external factors also influences the internal factors. This has led to the adaptation of the original theoretical proposition made by Ahmad (2015). The chapter also discussed the important findings in relation to empirical studies that confirm or disconfirm the findings of this study. In the next chapter, the summary of the major findings, as well as recommendations and conclusions, are presented.



CHAPTER SIX: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

6.1 Introduction

In this chapter, the main findings of the study, conclusions as well as recommendations are highlighted. In order to achieve this, the chapter has been divided into four major sections. The first section presents the summary of key findings of the research. The second section focuses on the conclusions drawn from the findings while the third section emphasizes the recommendations for the study. Suggestions for future research are also provided in section four.

6.2 Summary of Key Findings

This section presents the key findings from data collected. As highlighted throughout the preceding chapters, this work used a theoretical framework that combines institutional theory and resource-based theory to study the external and internal factors that influence IA effectiveness. Consequently, this section presents the key findings with regards to these factors. To accomplish this, the section has been put into two subsections. The first section relates to the external factors and the second communicates the internal factors.

6.2.1 Key Findings Relating to External Factors

The effectiveness of IA is relative and it is contextually dependent. Therefore, there is the need to understand the interplay of forces that are outside the boundaries of an organisation but happens to exert influence on the organisation's internal structures and processes of which IAF is key. Accordingly, the three levels of isomorphism as suggested by the institutional theory were found to be key external factors that influence IA effectiveness.

With respect to coercive isomorphism, the results of the study showed that the practice of IA in the Ghanaian public sector is largely influenced by the government through the enactment

laws and subsequent establishment of regulatory bodies. The analysis of data revealed that, prior to the enactment of the act, IAFs existed as subunits under the accounting and finance functions in the SOE sector but the passage of the Internal Audit Agency Act, 2003, (Act 658), brought life into the practice of IA. That is, per the requirements of Act 658, each SOE must ensure the establishment of an autonomous IAF that promotes the achievement of organisational objectives. Besides, the IAA and SEC are regulatory authorities that function to ensure that the practice of IA in the Ghanaian SOE sector conforms to the provisions of act 658. This means that there is high coercive isomorphism in terms of the establishment and practice of IA in the SOE sector.

On the other hand, coercive isomorphism was minimal in the case of SOE A. The analysis of data showed that this SOE was formally owned and operated as a private company during the pre-independence era but the ownership was converted to the state after independence hence it still inherently operates like a private entity. This SOE does not apply the provisions of Act 658 and hardly interacts with the regulatory bodies, being SEC and IAA.

Focusing on normative isomorphism, the study found that the role of professional bodies, professional standards, and other experts are key to IA effectiveness. The analysis of data revealed that the IAFs in the SOE sector derives their ethical standards from the professional standards. Also, they rely on the advices of consultants and experts such as KPMG, PWC among others in their areas of operations. The professional bodies such as ICAG collaborates with other bodies such as the IIA to organise training programs for the IAF staffs so that they are updated with the relevant issues in the practice of IA. Moreover, it was found that normative isomorphism was prevalent in SOE A in that the whole framework that guides the practice of IA in this SOE was based on the professional standards and not Act 658.

The results of the study also found mimetic isomorphism as prevalent in all three cases. The SOEs usually model the practices of IA in other companies that are seen as successful. These companies are mostly large multinational companies such as Nestle Ghana Limited. The analysis of data shown that in some cases, these SOEs send the IAF staffs to outside the country in order to learn from other foreign companies.

6.2.2 Key Findings Relating to Internal Factors

The resource-based theory suggests that individual organisations possess resources and capabilities that make them heterogeneous, and these resources help them to create sustained competitive advantage. Most of these resources and capabilities are found at the functional level of an organization, for which IAF is inclusive. From the analysis of data, key internal resources and capabilities that influence IA effectiveness are summarised in the paragraphs below.

Since the IAFs do not exist separately from the organisation, the analysis of data revealed that the organisation's financial performance and debt level, the level of risk exposure, and the level of reliance on information technology (IT) are key organisational characteristics that influence IA effectiveness. The findings showed that the budgetary allocations to the IAFs in all three cases is dependent on the profitability of the company. Thus in the case where losses were persistent, the IAFs budgetary allocations were insufficient. However, the use of merit-based performance measurement now allows IAFs to enjoy some direct financial benefits even if the company, in general, makes losses.

Moreover, the analysis of data revealed that although the SOEs in the case are faced with different levels of risks, their IAFs are not adequately positioned to improve their risk assessment processes. In addition, the results from the study indicated that, although there is the awareness of the tremendous benefits of IT in assisting the efficient and effective operations

of the IAFs, only SOE A has taken steps to install an audit software. Also, it was argued by Carcello, et al. (2005) that management would invest more in the IAFs to reduce agency cost where there are high debt levels but the analysis of data showed otherwise especially in the case of SOEs B and C since the government contracts loans on their behalf.

The staff size, staff composition of the IAFs, as well as the relationship between the IAFs and their auditees were found to be key factors at the departmental level that influence IA effectiveness. In all three cases, the analysis of data disclosed that the IAFs are understaffed, staff composition is accounting bias with relatively poor auditee relationships. Particularly, the findings showed that IAF staffs are based at the headquarters whiles the regional and district offices are without IA staffs in the case of SOE A. This, according to the findings hamper IA effectiveness.

The specific employee characteristics such as competence, professional qualifications, and academic qualifications are important factors that influence IA effectiveness. From the analysis of data, it was found that the IAFs are manned by staffs with long years of experience in the current jobs. Besides, most of the staffs possess professional qualifications, mainly chartered accountants with some pursuing graduate and undergraduate studies. The results thus showed that staff competence is tied to the level of experience and professional or academic experience.

At the managerial level, it was found through data analysis that top management supports were relatively weak in all three cases. Predominantly, these weaknesses exist in the form of taunted ACs and ARICs, poor AC interactions with IAFs, lack of physical resources such as vehicles separately for IAFs and lack of IA independence. The analysed data indicated that audit recommendations are not responded to on time and even in some cases they are not responded to at all. Also management override of internal controls threatens IAF independence.

6.3 Conclusions

IA has become an indispensable corporate governance tool in contemporary organisational settings in both public and private sectors. Its increased importance in the public sector has been embraced through the enactment of laws and establishment of regulatory authorities to ensure the establishment and operations of IAFs in most countries like Ghana. But the concerns of both IA practitioners and academicians is an assessment of the effectiveness of the IAFs, which is the focus of this study.

From the analysis of data, it can be concluded that IA effectiveness is influenced by factors that are within the organisations Ahmad (2015). But given that the concept of IA effectiveness is contextually dependent, the prevailing external environmental factors within which the organisation operates also have influences on IA effectiveness (Arena and Azzone, 2007). This study, therefore, used the institutional and resource-based theories to analyse how and why these internal and external factors influence IA effectiveness.

From the institutional theory perspective, all the three levels of isomorphism, being coercive, normative and mimetic are key external factors that influence IA effectiveness. Coercive isomorphism is demonstrated through the passage of act 658, as well as the establishment of regulatory bodies such as SEC and IAA has led to the rebirth of IA in the Ghanaian SOE sector. Thus, government initiatives such as laws and regulatory bodies have given the practice of IA in the SOE sector a legal support. Moreover, the hard work of professional bodies and consultant has been duly recognised as normative isomorphic pressures from the external environment. Besides, the practicing and structuring of IAFs in the SOEs in these cases continually follow the examples of other organisations that are perceived to be performing better than them. This confirms the influence of the external environment through mimetic isomorphism. Thus, the institutional theory remains as one of the useful theories that help to explain the influences of the external environment on organisational IA effectiveness.

This notwithstanding, there is the need for an understanding of the organisational specific factors that influence IA effectiveness and this has been achieved through the use of the resource-based theory. Consequently, these internal factors or resources and capabilities have been grouped as organisational characteristics, departmental characteristics, employee characteristics and managerial practices. The study showed how and why the individual resources and capabilities are perceived to influence IA effectiveness. For instance, the size, composition and auditee relationships were found to be the departmental characteristics that influence IA effectiveness. Also, the study showed that top management supports and the extent of AC interactions with IAFs are important managerial practices that influence IA effectiveness. Moreover, the competencies and academic and professional qualifications of the individual IAF staffs are found to be of the in key employee characteristics that influence IA effectiveness (Onumah & Krah 2012). In addition, financial performance, the level of risk exposure and IT adoption are important organisational factors that influence IA effectiveness. The findings also revealed that the external and internal factors are linked in that the former have some influences in the latter. Thus, this study adapts the theoretical proposition of Ahmad (2015) which combines the institutional and resource-based theory to analyse the internal and external factors that influence IA effectiveness.

6.4 Contributions of the Study

This section presents the contributions of the study. This study contributes to the extant literature in the area of IA effectiveness by answering the suggestions for future research of the issue of IA effectiveness with particular attention to the public sector in developing countries. By analysing IA effectiveness in the Ghanaian SOE sectors, this study was determined to fill this context gap.

In addition, the literature on IA effectiveness is characterised by a dearth of theories that can best explain the internal and external factors that influence IA effectiveness. Consequently, this study answers the suggestions by Ahmad (2015) for a future study that combines the institutional and resource-based theories to analyse IA effectiveness in the public sector. Thus, this study is the premiere work that combines this two theories for an empirical study.

The use of the resource based theory in this study also confirms that it is a useful theory that can be applied in the study of IA effectiveness. It has helped to emphasise strategic resources and capabilities that are key to IA effectiveness.

Moreover, the study contributes to policy by emphasising the importance of law and regulatory bodies, as well as professional bodies in ensuring IA effectiveness.

6.5 Recommendations

The findings of the study showed that there are important internal and external factors that influence organisational IA effectiveness. These factors, depending on how they are perceived and managed, can lead to effective or ineffective IA. It was found that among the external factors, there exist poor interactions between the regulatory bodies such as the IAA and the SOEs in this case. It is therefore recommended that the IAA should step up its attentions to the IAFs of the various SOEs. By so doing, the IAFs will be given the necessary government supports to carry out their mandate, thus being effective.

Furthermore, it is recommended that top managements of the SOEs need to put in place proper structures and resources such as networked computers with productivity software that would facilitate the efficiency and effectiveness of the IAFs. This would also require the training and hiring of IAF staffs with IT skills. In the same vein, IAFs need to be resourced with the required number and composition of staff so that it can manage the different risks that the organisation faces.

6.6 Limitations of the Study

The research approach adopted for this study is the qualitative case study approach which is criticised for its inability to generalise the outcome or findings of the study. This implies that the findings of this study may not reproduce itself in another place. However, the approach is consistent with the argument that IA effectiveness is contextually dependent hence this work does not intend to generalise the findings and conclusions reached.

Another concern worth noting in any qualitative study is the issue of reliability of data collected. Thus to ensure that the data collected for this study are reliable, the researcher collected data from multiple sources such as interviews, observations of processes and structures as well as a review of documents for additional evidence. Yet, it should be noted that qualitative researchers admit the fact that the interpretation of qualitative data could be influenced by the biases of the researcher.

6.7 Future Research Direction

Drawing from the aforementioned limitations, the following suggestions are made for future directions.

There is the need for a quantitative study that would provide some measurements of the variables identified in this study. By so doing, the study can extend the context in order to emphasise the credibility of the factors.

Also, since the resource-based theory traces its roots from the strategic management literature, it is suggested that future research could apply the same framework for a study in the private sector where the strengths of the resource-based theory are significant.

6.8 Chapter Summary

This chapter provides the summary of the key findings of the study, as well as conclusions and recommendations. The key findings were based on the theoretical framework adapted, which is a combination of the institutional theory and resource-based theory. In addition, the limitations and suggestions for future research were detailed in this chapter.



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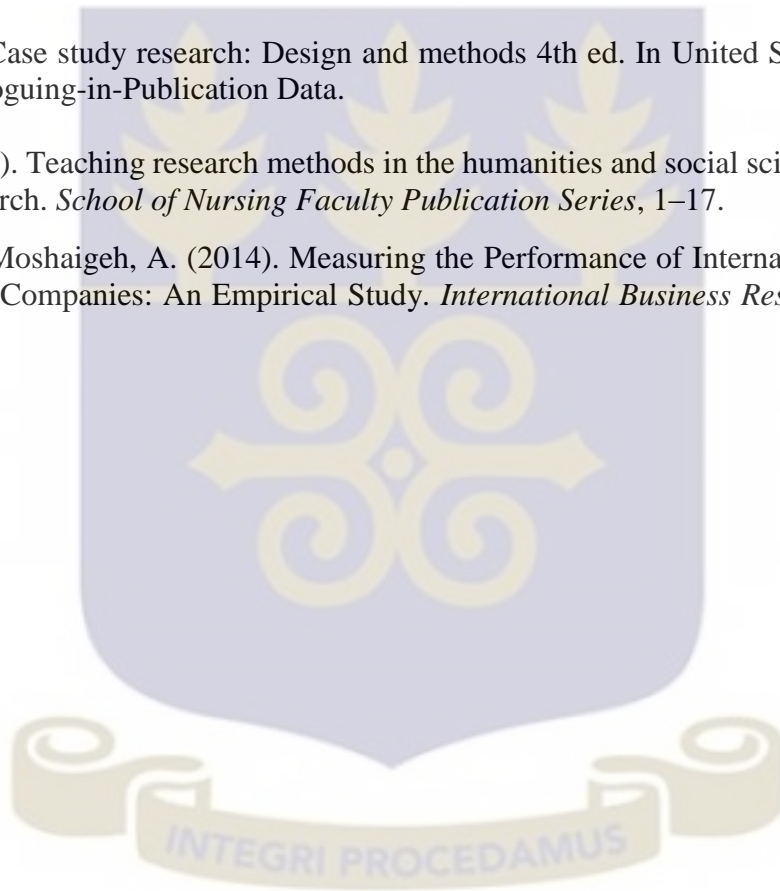
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APPENDIX

Interview Guide

Title of Project

An Analysis of Internal Audit Effectiveness in State Owned Enterprises in Ghana.

Part A: General and Background Information

General information

1. Designation of respondents
2. Functions
3. Number of years in current position
4. Other positions held

Background of organization

1. Main lines of activities (any changes, when and why?)
2. Sources of funding (any changes and why?)
3. Regulatory framework (any changes and why?)

Part B: Factors that Influence IA Effectiveness

Internal factors

1. What role does IAF plays when entity obtains a loan?
2. How and when does IAF benefits from the financial performance?
3. How does entity risk exposure affect IAF?
4. How and why does management interfere in IAF?
5. How do you observe IAF independency?
6. How and why the size of the IAF does affect the scope of work?
7. How does IAF staff composition affect its work?
8. How do you observe the relationship between IA and IA auditees?
9. How does the External Auditor evaluate IA scope of work?
10. How does top management support the IAF?
11. Why and how often does top management interact with IAF?
12. How does the Audit Committee interact with IAF?

External factors

1. Who and how does the coordination between the IAF and EA looks like?
2. How and what roles does the government play in the IAF? Why?
3. What and how do professional bodies contribute to IAF?
4. How did the organization's IAF develop?