

**UNIVERSITY OF GHANA
COLLEGE OF HUMANITIES**

**CORPORATE GOVERNANCE AND INTERNAL AUDIT: A CASE STUDY
OF MMDAs IN VOLTA REGION OF GHANA**

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**THIS LONG ESSAY IS SUBMITTED TO THE DEPARTMENT OF
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DECLARATION

I do hereby declare that this work is the result of my own research and has not been presented by anyone for any academic award in this or any other university. All references used in the work have been fully acknowledged.

I bear sole responsibility for any shortcoming

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DEDICATION

This research work is dedicated to God Almighty for how far he has brought me. Also to my dearest wife Joyce Akpene Keteku and my lovely children Melissa Deladem Agordotse, Mikayla Setsutsi Agordotse and Manuel Sedinam Agordotse.

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ABSTRACT

This study sought to examine the effect of Internal Audit on Corporate Government at Metropolitan, Municipal, and District Assemblies (MMDAs). Five (5) Municipal and District Assemblies from the Volta Region were selected as a case study. Five (5) respondents which includes the Finance Officer, Budget Officer, Audit Committee member, Administrator and a Director further sample from each of these selected Municipal and District Assemblies.

It was found from the study that, Internal Audit staffs are highly qualified in term education however they lack enough staff in terms of numbers. It is also noted from the study that, qualification and experience, working environment, regulatory framework, and the independency of the Internal Audit are very essential for the conduct of effective Internal Audit practices in Metropolitan, Municipal, and District Assemblies.

Furthermore the result indicates that, the existence and the role of Audit Committee in promoting effective audit practice at the Municipal and District level has not been effective. Most importantly, the study found that, effective Internal Audit practices impact good corporate governance of Municipal and District Assemblies.

The study therefore recommended that, in-service training be organized regularly at the Metropolitan, Municipal and District Assemblies to improve their experience level since qualification and experience are major determinants of effective Internal Audit.

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CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

One of the most vital condition of survival of firms lies on the ability of the firm to efficiently attain its objectives. In a small firm, activities are mostly regulated by the owners who are aware of the happenings of the firms. However, as the firm grows up and expands, it becomes difficult for the manager or the owner to have absolute control over its activities. Carcello et al (2011) indicated that, the expansion of market and the advent of bigger firms result to the need for stronger business structure that include norms and procedures for the management and operation of corporate processes and effective monitoring mechanism to reduce the overreliance on managerial supervision. The expansion of firms have led to the emergence of internal audit.

Government business is too large to be handled by one person who is the head of state hence the need for internal audit service to deploy at the public institutions. Internal auditing effectiveness has become one of the most pressing issues being considered by all governments globally. As a result of the critical role the internal audit units play to safeguard public resources. It is therefore important to ensure the effectiveness of internal auditing system since it enhances the performance and standard adherence to facilitate the attainment of an organization's stated objectives (Ramachandran et al, 2012).

In recent times, there has been rising concern raised with regards to the need for more transparency in the control of corporate entities. This call has resulted in paying extra attention to internal auditing in light of high spate of challenges in global business. In most cases, internal auditors' performance has fall short of stakeholders' expectation and the public at large. According to Cohen

et al (2004) the short of business globally lead to the demand for an effective and efficient corporate governance system that enhance proper financial reporting.

Internal audit refers to an independent, objective assurance and consulting activity designed to add value and improve the operation of an organisation. It aids the organization to be able to attain its objectives by bringing to bear a systemic and disciplined process to advance the effectiveness of risk management, control and governance processes. Distinct from public accounting which main purpose is about financial statement, internal auditing is more of consultative rather than confirmatory in nature. According to Sawyer (1993), the internal auditors are very essential to management of an entity because they give critical information needed by managers. Internal audit is desirable in organizations because it acts as check and balance against possible deviations from the predetermined objectives and policies (Ayamga, 2011).

Over some few decade ago, there have been a large number of financial scandals globally. Most recent ones among are; Parлмаlet, Enron, Famie Mac and WorldCom. These happenings have immensely destroyed the confidence in the financial reporting due to fraud. These scandals can be said to have caused the collapse of Arthur Anderson, one of the world biggest accounting firm (Bayers, 2002). Over the years, internal audit have been adopted as the means of evaluating or assessing the effectiveness and efficiency in most phases of an organization's operations, both financial and non-financial (International Federation of accountants, 2008). As a result of these changes, Internal Audit Department has been classified under senior management status.

In this case, the director of Internal Audit Department reports directly to the board director or the controllers committee (Sarpong, 2004). This increasing recognition by management of the benefit of good and effective internal controls and the unique system of internal auditing as a form of control over all other controls is evident in the definition of internal audit. According to CIMA

(1999), internal audit is “an independent appraisal activity established within an organization as a service to it. It is a control which functions by examining and evaluating the adequacy and effectiveness of the other controls”.

In a situation to prevent the failure, concern have been raised about internal audit with regards to other forms of auditing (Mohamad and Muhamad, 2011). The global standard is that, Internal Auditor reports to the Auditing Committee and not to management to foster the independency. An effective relationship between the Internal Auditors and Audit Committee is very essential to ensure good corporate governance. It can therefore be deduce that, a good corporate governance depends largely on the interaction between Internal Auditors and Audit committee. Similarly Holt and Dezoort (2006) argued that, internal auditing plays a very essential role in corporate governance through monitoring risks which relates to the organization and ensure that every organizational procedure are effectively and efficiently controlled.

Corporate governance is a generic term covering how a corporation is managed. It includes such things as the duties of individual board members and Boards as a whole. According to Radu & Ramona (2013), Corporate Governance includes a set of relationship between an organization’s management, its shareholders, its board and other stakeholders. Corporate governance represent a major element in improving effectiveness and development as well as enhancing investor or costumer confidence. Corporate governance provides a structure for an organization to set its objective and device means of attaining the set objective through monitoring.

Corporate Governance explains the role of individuals entrusted with the control, supervision and direction of an organization and hence needs internal auditors to determine those individual charged with governance. Nonetheless, to be able to ensure that there exist checks and balances on the management of an organization, effective and good corporate governance cannot be

overlooked. There are instances where management and directors of an organization do influence the organization's financial performance as well as order crucial decisions which range from executive incentive determination, succession planning and the adoption of new technologies among other relevant things.

It has been established that, firms which make use of audit reports improve upon their productivity. Hence the need to investigate if such relationship exist in district assemblies in Ghana. Radu & Ramona (2013) indicated that, it appears there exist a strong relationship Corporate Governance and Internal Control especially Internal Auditing. Corporate failures in recent time have led to the prominence of internal auditing.

It is very vital for internal auditors to emphasis on risk and controls to attain a well-meaning governance process and financial reporting. Blomberg (2011) noted that, external auditors do not provide requisite cautions with regards to respective financial statements of an organization that went bankruptcy a month before the mishaps. Internal auditors are seen as independent at the same time inside observer. They play a role in the governance procedure by creating awareness to senior management, board and external auditors about the weaknesses within the control system through assessing effectiveness of the organization's risk management. Hence the significance of internal auditing in the context of corporate governance cannot be over-emphasized.

1.2 Problem Statement

Over the years, Ghana Audit Service report always exposes infraction at the various public sector organizations. Most of these infraction are in the area of financial mismanagement. The reoccurrence of these financial mismanagement will force one to ask how effective audit service

work with the public sector organizations. How does internal control mechanisms work to ensure effective corporate governance which will in turn reduce the infractions exposition annually? Effectiveness of corporate governance has been a problem in Ghana's public sector especially at the local government level. The general concern is, can the low performance at the local level be partially attributed to not applying audit outcome. And can the audit report utilization improve the corporate governance at district assemblies. Recently, several significant organization failures internationally, have led to an increased demand for regulation in the business environment (Verschoor 2002). Very little research has been done in this area to ascertain the real relationship between internal audit and corporate governance at the local level.

Internal audit system is widely perceived as having an overwhelming and a promising tool for contributing to the efficiency and effectiveness in the management of resources (Okozie, 2009). For business organizations to continue to operate in a dynamic and a competitive environment, every organization should therefore see the importance of internal audit system and its impact in the organization. Internal audit department have been established in many organizations in Ghana to ensure safe custody of assets; avoid misuse or misappropriation and also to detect and safeguard the organization against fraud.

However, Cromwell et al (2011) reports that many of such organizations are still saddled with fraudulent activities and misuse of financial resources. Likewise Rajaei (2009) noted that, internal audit aid in reducing inefficiencies is usage of scares resources. Meanwhile other scholars contended the assertion that internal audit is necessarily the game changers when it comes to inefficient use of resources (Baga 2006, Skelton and Allen, 2007).

An improvement in the internal control (Internal Auditor) will lead to an improvement in corporate governance. Considering the rate at which non-compliance of good corporate governance resulted

into collapse of some private bank in Ghana in recent time. There are public institutions in Ghana which are not complying with good corporate governance which is burden to the poor tax payer. This paper sought to measure effectiveness of Internal Audit at district assemblies in Volta Region and also to find out if internal audit practice in these assemblies affect their corporate governance.

1.3 Research aim Objectives

The aim of the study is to evaluate the internal Audit practices at MMDAs and their implication on corporate governance. In achieving this goal, the researcher will specifically:

- i. Investigate factors affecting Internal Audit Practice in MMDAs.
- ii. Investigate how Audit Committee affect Performance of Internal Audit at MMDAs
- iii. Determine the effect of Internal Audit on Corporate Governance at MMDAs.

1.4 Question

- i. What are the factors affecting Internal Audit Practices at MMDAs?
- ii. How does Audit Committee affect Performance of Internal Audit Practice at MMDAs?
- iii. How Internal Audit does affects Corporate at MMDAs?

1.5 Significance of the study

Internal audit is said to have the potential to strengthen corporate governance through risk-based audits that provide assurance and insights on the processes and structures that drive the organization toward success. This study is motivated by low corporate governance compliance at the public sector. Since the public sector will not collapse as in the case private sector, it will comes

with a high to the tax payers. It is therefore the aim of the study to find out how effective public sector internal control works to improve upon the corporate governance. The result and findings from this study will inform government policy formulation to improve effective internal control and corporate governance. Also the outcome of the study will as well add to literature on internal audit and corporate governance at the public sector in Ghana.

1.6 Organization

Chapter one will be introduction, whilst chapter two will review both empirical and theoretical literature on the subject area, Chapter three will focus on the methodology use in the research and Chapter four will be discussion of results. Finally conclusion and recommendation will be done in chapter five.

CHAPTER TWO: LITERATURE REVIEW

2.0 Introduction

In general, literature review gives an account and analyses on renowned scholarly works on the study under consideration (Taylor et al, 1978). Saunders et al (2007) also noted that, literature review provides detailed and in-depth analysis on the merit and demerits of literature in a specific aspect which has been already known with regards to the topic under research. This chapter provides a detailed account on literature (theoretical and empirical) regarding internal audit, public sector corporate governance and organization performance. Specifically the chapter will define internal audit, its structure and the relationship between internal audit and the audit committee. The chapter also reviews literature on definition and the concepts of good corporate governance, Corporate Governance and Internal Audit. Empirical review of various related studies was also done in this chapter.

2.1. The Concept of Internal Audit Function

Internal audit according to Institute of Internal Auditors (2003) is referred to as a goal assurance with the prime motive of evaluating and improving the effectiveness of managing risk and governance procedures. IFAC (2010) revealed that, the word “Assurance” was used by the international accounting body to define internal audit in line with auditing standard. Gill and Cossierate (1993) described internal audit as an independent appraisal of how effective an internal control within an organization operates to attain its stated objectives. Likewise Saud and Marchand (2012) defined internal audit as an independent, objective assurance and consulting process formulated to add value and facilitate a firm’s operation. It aids the organization in achieving its

objectives through undertaking a systematic disciplined model which improves the effectiveness of risk management. Internal audit ensures that, the financial dealing undertaken are done properly. Internal audit focus on the examination of the system and processes in place so as to enable their conformity with the regulation as well as the adequate system of internal control.

Institute of Internal Auditor Research Foundation (2008) argued that, an internal auditor is a forward looking personality who understands business system and enables management to operate efficiently with the aim of attaining organizational goal. The internal auditor is evaluated by the external auditors to determine whether the work of the internal auditor can be rely on in conducting financial audit. Agreement on the internal auditor's process allows owners to take the necessary corrective measures and normally a follow up audit done by internal auditor tries to assess the effectiveness of the corrective measures. The Audit report from initial audit and the result from the corrective measures normally indicate the effectiveness of the internal audit.

Dittenhofer (1997) indicated that, evaluation of management and other workers in the organization can sometimes be done through internal auditors 'activities. The processes involved in internal audit is grouped into four major dimensions which include: planning, executing, reporting, monitoring and evaluation (Moeller, 2009: Thompson, 1996). Planning of an internal audit involves the consideration of the following: scope and aim of audit, rules and regulation governing the audit, possible risks, independence and competency of the internal auditors and audit programs. The execution of internal audit helps the auditors to secure vital information involving process performance data. Internal audit also ensure proper documentation and easy retrieval of audit findings.

The audit finding can be use at the management level to enable necessary corrective action to be taken to prevent root causes from reoccurring in the future. Audit monitoring through self-

assessment and peer review must be encouraged to improve performance. Making Follow-up on audit results is critical to enable corrective measures by management are effective and changes to organizational processes are in line with targeted improvements. Specifically, internal auditor's strategies involve a combine audit and collaboration to ensure monitoring the performance of management. According to Gill and Cosserat (1993), comprehensive internal audit must encompass attesting financial statement, ensuring probity, monitoring legal compliance, and evaluating the management performance. Likewise Millichamp (1996) argued that, internal audit covers a common dispensation including among others: the review of internal control mechanism, review of compliance to accounting rules and standards, monitoring policy compliance, safeguard of the organization's asset against theft, appraisal of effective and efficient use of available resources and finally making recommendation for corrective measure to be taken.

2.2 Internal Audit and Management

It is worth noting that, management determines the nature, scope of operation and status of Internal Auditors, hence differs across organization according to the perception and need of management (Millichamp, 2002). Management of an organization has the responsibility to craft strong internal audit unit to ensure efficiency by enhancing financial management. In the absence of management support, internal audit will be ineffective. Management of an organization adopt the means of internal audit with an assurance to attain the organization's objective with regards to operations, financial reporting and compliance with rules and regulations.

However Badara (2012) argued that, internal audit must not be restricted to only financial transaction. He further noted that, internal auditors can also aid management by enabling that adequate financial and management controls have been implemented and operated appropriately.

The management of an organization can also be aided by internal auditors by identifying the weakness in the existing system and making necessary recommendation through internal audit which are likely discover error at early stages. On the other hand, internal auditors ensure that assets are verified, errors in account are detected and corrected at early stage, staff and management deliver effectively, and finally a detailed financial account submitted by contractor for facilitation before necessary payment are made.

An independent board chair, internal audit, external audit and effective audit committee are all separate corporate governance instrument used to monitor the behaviour of the management of an organization (Davidson et al., 2005). A complex interaction within these governance mechanisms revealed what is termed “corporate governance mosaic” (Cohen et al., 2004). Professionally, Internal Auditors are supposed to function independently to be able to review properly internal control system, though management see to their establishment. Internal ought to independently examine, evaluate and report adequate information to ensure proper, economic efficient use of scare resources (Millichamp, 2002). URT (2009), argued that the accounting officers are responsible for the establishment of an effective internal audit unit for appraisal of the internal control system and enable that, the internal audit is functioning appropriately.

However, challenges ensue between the independent internal auditors and executive directors as a result of information asymmetry which indicates internal as more like a complementary mechanism. It is against back drop, that several researched has emerged to provide evidences to establish the relationship between audit committees and internal audit (Scarborough et al., 1998).

It also worth noting that, the performance of Internal Audit is dependent on the audit team composition including among: size, competency, expertise and experience. There are cases, where audit activities are outsourced and this decision depends on skill and the expertise of Chief Audit

Executive and the team members. According to Powell (1993), Chief Audit Executive should determine the requirements with regards to size and competency of the team, depending on the business type and the complexity of business operation. Therefore, the question that needs to be answered is as to whether the structure of the team affects the performance of an audit task.

2.3 Internal Audit and Audit Committee

The main responsibility of the audit committee is to oversee the functions of Internal Audit (Haron et al., 2010). The interaction between Internal Auditors, Audit Committee, the board of directors and management aside the external auditors are very essential to effective governance (Cohen et al., 2004). Powell (1993) argued that internal audit function is the most suitable tools to report on effectiveness of internal control system. In the absence this oversight, a well-structured internal audit function will have an insignificant effect on internal control since the internal auditor may be sidelined making access and corporation of auditees very challenging (Haron et al., 2010). Therefore an effective audit committee couple with a very high management integrity can assist the internal auditors to perform their duty ethically when in a dilemma (O'Leary and Stewart, 2007). Hence an effective internal audit function will ensure that, chief audit executives report and interact with the audit committee at regular intervals and facilitate the process of internal audit.

One major requirement with regards to the composition of Audit Committee is that, there must consist of at least three members. Majority of the members must be independent directors and at least one financially literate personality (Liew, 2007). Effort should be constantly made to disclose in annual reports of the Audit Committee and Audit Committee's activities and information publish must be as authentic as well possible.

2.4 Theoretical Overview of Internal Audit Evolution

The industrial growth and international trade which has emerged during and after the World War II is very significant. Burnaby (2011) argued that the development which occurred made it challenging for several organization to be able to establish and maintain adequate control internally over their operations coupled with increase compliance with governance regulations, added pressure on organizations make their operations more effective and efficient. All over Africa as well as other developing countries, governments begin to move towards a higher level of transparency and being called upon by civil societies and citizens to demonstrate accountability in the management of the public coffers and the efficiency in the delivery of social services.

Deagan (2009) indicated that, the main theory that relates to internal auditing remains the agency theory. There are other related theories including legitimacy theory, institutional theory and organizational identity and identification theory. Instead of operating as just a mere watchdog, internal auditors now sought to provide services includes value addition, especially with regards to business processes and risk assurance. Despite the usage of each theories above by various researchers in the measurement of performance internally, none of them were able to collectively explain internal audit performance and its effect on corporate governance.

According to Enfo et al (2013), “internal audit is one of internal assurance and business review activities which must operate in coordination and play complementary manner to the benefit of the organization”. This further indicated that, internal auditing could act in faith of control, governance processes and risk management purpose at the micro, and macro level. In USA for example, the internal audit profession was instituted with the establishment of Institute of Internal Auditors (IIA) in 1941 and currently and as at now it consist of over 180,000 members including Ghana.

The IIA has its global headquarters in Altamonte Springs, Florida, USA and it is the internal audit profession's global voice, recognized authority, acknowledged leader, chief advocate, and principal educator. Generally, members work in internal auditing, risk management, governance, internal control, information technology audit, education, and security. The mission of the institute is to provide dynamic leadership for the global profession of internal auditing. It also issues authoritative documents on the standards and guidance relating to internal audit practice.

Government agencies of Australia are generally created by statute and whether they are required to have an internal audit or not depend on the specific legislation governing them. However, in New Zealand, there is no formal requirement for government agencies to have an internal audit function. For the Italian legislation system, there is no unique regulation which organizations have to comply with, however there are different directives which are relevant in relation to the internal control (Arena et al, 2006).

Also in Canada, Section 16.1 of their Financial and Administration Act of 2009 (Treasury Board of Canada Secretariat, 2009) built on the 2001 and 2006 policies with regard to internal audit's role in the Canadian government requires that internal audit and audit committees provide deputy heads and Comptroller General with added assurance process, at both department and government level. Canada has twelve (12) chapters that report to the Canadian Council of the IIA. Di Stefano (1997) and Abbatepoalo (2003) revealed that, the profession of internal auditing was brought to many American countries in the early 1950s by multi-national manufacturing companies based in the UK and the USA. Each Latin America country has its own institute which is a member of the IIA. Prior to 2003, internal audit practice was not backed by law, despite its acceptance as an appropriate practice. With regards to existing literature, until 1988 the auditor-general takes responsibility of internal audit function of accounts that were under his office jurisdiction as

stipulated in Audit Service Decree, 1972. As times pass, those responsibilities were delegated to the controller and Accountant-General's Department.

This arrangement has been brought about confusion and bickering which resulted from questionable mandates, duplication of functions, cases of control over ride and ineffective performance (Ghartey, 2003). Internal Audit Agency Act (Act 658) subsequently in 2003 has been promulgated to facilitate, coordinate and deliver quality assurance for internal audit activities within MDAs and MMDAs. Since then, the Agency had been involved in establishing and strengthening of internal audit activities in all MDAs and MMDAs as well as issuing internal audit manual for the conduct of internal audit activities.

An annual audit forum has been instituted by the regulators to continuously sensitize all stakeholders of state institutions on issues relevant to the profession in the global front. All MMDAs and MDAs have been instructed by regulators to establish a department or unit for internal audit that are to have two reporting lines; regularly reporting to management and quarterly submission of report to the Director-General of the Agency. It is therefore the responsibility of the Director-General to ensure that, the concerns raised in the internal audit report are resolved with management of various entities and then transmits an annual report to the office of the president of the republic of Ghana through the Board of Directors of the Agency.

All the above notwithstanding, Institute of Internal Auditors (IIA) Ghana's chapter was formally registered in April 2001 and inauguration done on 13th May, 2005 under the professional Bodies Registration decree, 1973 (NRCD 143) as a professional association dedicated to promote and develop the effective practice internal auditing in Ghana. Also non-governmental organizations have also aid in mobilizing majority of practicing internal auditors in both the private and the public sectors of the country and serve as the mouth-piece for all internal auditors.

It is undisputable that, the Internal Audit Regulation, 2011- Legislation Instrument (L.I 1994) Section 22 (2) state that; the IIA Ghana chapter shall provide a representative to serve on the Audit Report Implement Committee (ARIC) of a ministry or Assembly. However it is worth noting that, legal regulations are not the only pressure influencing the development of Audit Department.

2.5 Factors Affecting Internal Audit

Professional competence of Internal Auditor: Securing appropriate staffing at the internal audit department couple with effective management of the staff are very vital in improving the performance of internal audit practices. Hence Al-Twajry et al. (2003) argued that, audit staffs require professional skills in terms of getting the necessary education, experience, and training to enable them conduct their full range responsibilities required by mandate. IIA (2008) noted that, all auditors owe a duty to meet the minimum educational and professional requirement as indicated by their relevant professional organizations. An auditor must be highly educated to be regarded a human capital (Bou-Raad, 2010).

Few empirical studies have been done to ascertain the impact of educational qualification effectiveness of an auditor. Nanni (2004) found that auditor's educational, professional and experience had a positive significant effect on evaluations of internal accounting control.

Organizational Independence: The independence of the organization from actively controlling and interfering in the internal audit practices will improve upon the internal control of the organization. According to Van Peurse (2004), there is strong potential confused relationship between management and internal auditors. That is, the internal auditors owe it a duty to aid managers in performing their task, and at same time the internal auditor ought to independently

evaluate the effectiveness of management. Internal auditor has the responsibility to uphold the interest of their manager, however they may be reluctant to counter management, irrespective of the consequences.

According Bou-Raad (2010) the strength of the internal audit unit must be evaluated with regards to the level of independence it enjoys from management and in carrying out tasks. A number of institutions or organization such as IIA and American Institute of Certified Public Accountants (AICPA) have also argued that, organizational independence is very critical to the viability of the internal audit practice (Brown, 2003). To avoid conflict of interest, it necessary for auditors to be sufficiently independence from the persons they are required to audit.

Support from Top Management: It is obvious that, top management has control over resources allocation to various departments. Hence any activity which has not got the support from top management cannot succeed. Several studies have been done, which indicated that top management commitment and support is a key factor in organization improvement (Dale and Duncaif, 2005). With this assertion, it is not a surprise that management acceptance, support and commitment of internal audit practices has long been very crucial to the success of that practice (Sawyer, 2003).

2.6 Internal Audit as Mechanisms

2.6.1 Internal Audit as a Risk Management Mechanism

Value addition to organization can encourage by Internal Auditors through giving an assurance that, their exposures with regards to effective risk management (Walker et al, 2003). Lindow and Race (2002) argued that, internal audit need to play an essential role in monitoring the risk profile

of an organization. Likewise Kwan (1999) noted that, the development of risk based culture is needed to enable companies to develop strong organizational commitment to manage risk, which will result into the development of an integrated risk management framework within firms. Also it is established that, internal audit aid business entities to identify and evaluate risk and put the profession at the front line of the risk management.

The directors and management of an organization make use of the process of internal control with the assurance of achieving the organizational goals with regards to the operation, financial reporting and compliance with the regulations. The International Standard on Auditing (ISA) argue that the control environment can be strengthen by using effective internal functions including: reviewing internal control structure, monitoring of different operations in respect of information system and control procedures.

2.6.2 Internal Audit as an Internal Governance Mechanism

Davidson et al (2005) argued that, an independent directors on boards, independent board chair, internal audit, effective audit committee and external audit are different corporate governance mechanisms used to monitor behaviour of the management. Cohen et al., (2004) indicated that, with regard to the complex interaction between these governance mechanisms are like a “corporate governance mosaic”. The challenges between independent and executive directors as a result of information asymmetry reveals internal audit as more likely to be a complementary mechanism. Evidence sought to establish empirically in support of this though examining the relationship between internal audit and audit committee (Scarborough et al., 1998). It is in line with the Institute of Internal Auditors (IIA) viewpoint in respect of internal auditing, that aids firms to improve and evaluate governance processes (IIA, 1999). Therefore the positive relationship which exist

between the internal audit function and an effective audit committee can be expected due to their closely intertwined objectives. Verschoor (1992) reiterate that, efficient audit committee may reinforced the position of internal audit function whilst a very effective audit function has the tendency to enhance the effectiveness audit committee.

2.7 Concept and Principles of Corporate Governance

2.7.1 Agency Theory

This theory is very vital with regards to explaining the roles of board directors on the performance of the firms. According to Zahra and Pearce (1989) the agency theory is among the most in researches done on the contribution of board members. Muth and Donaldson (1998) argued that as the firm expand, shareholders become unable to control the firm effectively therefore hire the service of a professional managers who have specialized knowhow with organizational operation to take over the control. According to Davis et al (1997), agency theory can be define as the conflicting interest exiting between the owners (shareholders) and the management of the corporation. Scholars noted that, the conflict occurs where the managers seek their self-interest at the expense of owners (shareholders) whose intention is adding value to the corporation for long term interest. Furthermore Muth and Donaldson (1998) indicated that, as a result of separation of ownership from management of corporation, managers have the liberty and power to pursue their self-centered agenda.

In view of the problems of conflicting interest and mistrust of managers as indicated by the agency theory, the concept of board emerged to control the activities of the manager. According to Zahra and Pearch (1989), the boards contribution in to improve performance could be reduction of

agency cost which result from non-compliance of managers with laid down rule and regulation by articulating owner's objectives and focusing the attention of managers on company's performance.

Corporate governance has been defined severally from diverse view point by various authors and professionals including those in academia, professional bodies and regulators. Vo and Nguyen (2014) noted that, the main concerns of corporate governance are related to "the structures and processes for the business directions and management of company". According to Marashdeh (2014), as a result of an increasing interest of organizations with regard to corporate fraud and fraudulent financial reporting the notion of corporate governance has become common in both developed and developing economies.

Zahra and Pearch (1989) outlined four (4) important attribute of board which consist of composition, characteristics, structure and decision making processes. Researchers indicated that agency theory gives decision making process toward performance of board abrupt attention and the monitoring role of the board which aimed at reducing agency costs, but at the same time places a minimal role on the board in strategic contribution. Muth and Donaldson (1998) noted that, board of directors must be independent from management of the corporation with the aim of maximizing performance. Some scholars have argued that the independency of boards could have a positive effect on corporation performance. In other words company would experience a weaken performance should the independency of the board is compromised. According to Fama and Jensen (1983) as cited in Muth and Donaldson (1998), they asserted that it is important to separate the initiation and implementation of decision from the ratification and monitoring of decisions.

2.7.2 Concept of Corporate Governance

There exist two school of thoughts with regards to what is referred to as corporate governance. We have the narrow perspective of Corporate Governance which view corporate governance as serving the interest of just shareholders whilst there is a broader perspective which observe corporate governance as satisfying the interest of all stakeholders include employees, suppliers, customers and the government (Gallian, 2006; Stenberg 2004). Gillian further noted that, diverse school of thoughts and their peculiar definition of corporate governance based on the epistemological assumptions that underpins the concepts.

Shareholders perceive corporate governance differently from how stakeholders perceives corporate governance. According to Marashdeh (2014), shareholders perceives corporate governance as the principal's incentive to maximize their value, however stakeholders perceive the concept in terms of controlling mechanisms to regulate and maintain organizational operations. Enlightening on these perspectives, Gillan and Starks (1998) express corporate governance as a broader concept ranging beyond management however, it includes the systemic control, rules and regulations of firms, in effect, dictates corporate direction, involvement in executive decision, supervision and accountability.

Sheifer and Vishny (1997) defined corporate governance from a mitigating agency problem perspectives which they refer to as dealing with a way by which suppliers and financiers of the organization assure themselves of getting return on their investment. Because it becomes practically impossible for shareholders of a company to run day to day activities of the corporation, they delegate such duties to an agent to oversee the day to day operation of the corporation in their interest. With reference to the above comment by Sheifer and Vishny, Keasey, Thompson and Wright (2005) defined corporate governance as both institutional and market based

mechanism, which induce self-centeredness controllers of an organization (Managers and employees) to make decisions which maximize the value of the corporation to its owners (Shareholders).

Despite the extensive nature of Keasey et al's (2005) definition of corporate governance, it has been criticized by Denis and McConnell (2003) for its vagueness and lack of theoretical underpinning to prove its hypothesis. Therefore Denis and McConnell (2003) went ahead to give their definition based on the agency theory that permits the conceptualization of the relation existing between organizational performance and organizational structure. They noted that, any understanding of organizational governance should openly indicate that shareholders own the corporation. Denis and McConnell are of the view the much emphasis be lied on shareholders' interest.

OECD stipulates five principles of Corporate Governance namely: Shareholders right, equitable treatment of shareholders, the role of stakeholders, disclosure and transparency and the responsibility of the board. Every good corporate governance framework must seek to protect the interest and rights of shareholders. Also a good corporate governance framework must treat its shareholders equitably irrespective of the percent of share an individual holds in the organization. A good corporate governance framework must recognize the interest and rights of stakeholders as stated by law and inspire dynamic co-operation amongst corporations and stakeholders in creating wealth, jobs, and the sustainability of financial soundness. Trust is really vital in operation of an organization and this can be instill by transparency. Therefore a good corporate governance must ensure that information relating to the corporation like, financial standing of the organization, performance and governance are disclosed on time and accurately. Finally a good corporate

governance framework must ensure a strategic guidance of the corporation, the efficient evaluation of management by the board, and the board's accountability to the corporation and its stockholders.

2.8 Corporate Governance and Internal Audit

According to Cattrysse (2005), there exist a strong relationship between corporate governance and management, the audit committee and corporate governance and internal control. Also is undeniable that the audit committee depends 'heavily' on the internal auditor for its reviews of the system of internal control as prescribed by corporate governance recommendations and codes. It is therefore not a surprise that several efforts are put in by IIA to guide its members in order to become corporate governance experts, who are capable of assisting both the board and management of an organization. These is done by IIA through consistent discussion, recommendation and commenting on various aspect of corporate governance in general and regarding aspect of audit in particular. Professional Practices Framework is one of the regulating device intended to be used by IIA, which includes not only 'code of Ethics' but also a set of 'Standards for the Professional Practice of Internal Auditing' consisting of compulsory criteria for internal auditing as it should be. Cattrysse (2005) argued that, these standards are somehow general since they can be applicable to all internal auditors irrespective of the company.

One major role of internal audit is to evaluated and make contribution toward the improvement of risk management, governance system and internal control. This standard provides a very general description of the responsibilities of an internal auditor. In practice, the advisory role which pertains to this standard further explains all aspect that are to be understood in the standard. The scope of internal auditing, the responsibilities of management and the definition of how auditor's evaluation result into an appraisal of the overall managerial process in determine by the standard.

Implementation standard 2120 focus specifically on the assurance aspect given by the internal auditor on the effectiveness and adequacy of control including the organizational governance, operation and information system. These also involve: effectiveness and efficiency of operation; reliability and integrity of financial and operational information; safeguarding of asset and compliance with rules, regulations, laws and contracts.

Practice advisory again gives further information, and by doing so shows in every sense to corporate governance. The practice advisory expunge on the responsibility of the board: One of the responsibilities of the board is the establishment and maintenance of organizational governance processes as well as obtaining assurance regarding the effectiveness of risk management and control processes. Moreover on the responsibility of management; their roles is to oversee the establishment, administration and assessment of that system of risk management and control processes. Lastly on the side of auditors: they provide different degree of assurance about the state of effectiveness of risk management and control processes (Cattrysse, 2005).

Traditionally, the responsibility of the internal auditor was to aid the company to maintain a system of internal control of its financial statements. However in recent times, a range of new opportunities, responsibilities and possibilities present themselves in the light of corporate governance. The major problem confronting the internal auditor is to find the necessary means to provide the degree of reasonable assurance expected by all the stakeholders. Putting in different words, an internal auditor must endeavor to become a key tools to promote effective corporate governance processes. Also audit committee sought to improve their effectiveness through better and more consistent contact with internal auditors who represent their most valuable source of information. The internal auditors play a dual role which enables them to keep an eye on the

direction the company is going whilst another eye on every aspect of internal control which includes laws, rules and regulations, expectations, risk and opportunity.

Basel (1999) argued that internal auditors play a very essential role in achieving an effective corporate governance. How effective the board and the senior management are enhanced through the recognition of the essence of audit process, ensuring measure are undertaken to enhance the independence of auditors, enabling the independence of Chief Audit Executive (CAE) by reporting audit outcome to the audit committee or board. Likewise the board must acknowledge and recognize that the internal auditors are their critical essential agents. Verschoor (2000) reiterate that a critical attention is being placed on audit committee and board of director responsibilities for the better understanding, management and evaluation of business risk have on corporate governance.

2.9 Empirical Literature Related to the Study

In general, empirical literature review sought to outline and analyze earlier study related to the area or field under study. This helps the researcher to establish the possible literature gap. At this stage all research papers both published and unpublished available in electronic and print formats were reviewed to provide secondary information necessary for the present under study.

Bananuka, et al, (2018) undertook a study titled, “Internal audit functions, Audit Committee’s Effectiveness and Accountability in Ugandan Statutory”. The study sought to examine the role of internal audit functions as well as audit committee’s effectiveness on Accountability in Statutory Corporations. A correlation was run between the variable using a cross-sectional data. It found that, internal audit functions has a positive significant effect on accountability at Statutory

Corporations. Also the effectiveness of audit committees has significant influence on the accountability at Statutory Corporations.

Kagashe (2008) undertook a study to assess how effective an internal audit service department is in safeguarding public resources in Tanzania. He used Kibaha District Council as a case study. In all a sample of twenty five (25) respondents were drawn from the target group to provide necessary research data. The outcome of the research indicated that Internal Auditor's reports lack sound internal control over the council's resources. And it further revealed that, this was as a result of management laxity over instituting, supporting and supervising the internal control processes. Also it was revealed that, Internal Audit Unit lack necessary independence to undertake its duty with regards to reporting mechanism and programme of work. He identified other challenges such as lack of financial and material support, lack of management support in implementing recommendation from audit reports, lack of expertise and inadequate knowledge of Internal Auditors.

Also Kunze (2010) assessed the effect of organizational structure on internal audit functions. The outcome of the study revealed organizational structure to be a hindrance to internal audit functions. It further outlined some challenges that relate to reporting system and urge for various changes to facilitate internal audit capacities with regards to the autonomy and resources. The research outcome also noted the reluctance of management to ensure a strong and effective internal audit units because of their low perception of seeing Internal Auditors as rivals.

Moreover Mulinda (2010) studied the impact of internal audit in risk management. The outcome of the study indicated that, most internal audit personnel lacked basic Information Technology (IT) skills and lack of quality assurance machinery. It further noted that there were absence of monitoring and evaluation mechanism. This was in line with Samagwa (2010) who sought to

explore the efficiency of internal audit in risk management control found that there was lack of internal audit charter and performance gap of the internal audit unit as a problem facing internal auditors on risk assessment.

CHAPTER THREE: RESEARCH METHODOLOGY

3.0 Introduction

Research method refers to the method, techniques and procedure employed in an effort to secure unknown information. This chapter consist of the approach used in the collection of data for the research work. Its prime motive is how to discover what a researcher want to know (Kumekpor, 2002). Thus to reach a reliable conclusion with regards to what a researcher want to know, it is imperative to ensure that techniques and approaches employed are themselves objective, dependable, absence of personal and systematic.

The focus of the chapter is the method used by the researcher to secure information for the study, which consist of identifying study population, data collection, sample frame, sampling procedure, research instrument employed, how the research instrument was administered and the techniques undertaken in the data analysis.

3.1 Research Design

Research design can be observe as a plan developed to guide the researcher in the process of data collection, analysis and interpretation of observation. Also, is a logical model of proof employed to facilitate drawing of inference with regards to causal relationship between variable under study by the researcher. Kothari (2004) defined research design as a strategy or plan employed by the researcher to obtain the expected study outcomes. The design of a research gives the definition to the type of study the researcher sought to undertake. According to Miller and Brewer (2003), research design is normally a model employed to discharge ‘the burden of proof’- the logical organization which allows the researcher to feel what he/she has done in the study to enable him/her to attain a valid conclusion. Research design is employed to structure the study, and to

indicate how all of the major parts of the research project corroborate to address the research questions.

There are various categories of research design subject to the nature of the research which includes survey design, study design and experimental design. For the purposes of this research, a survey or non-experimental form of research design was employed. This is a study which determined the apparent level of good public corporate governance through internal auditing at selected Metropolitan, Municipal and District Assemblies (MMDAs) in the Volta Region (Ghana). Mixed data collection (secondary and primary) techniques were used so as to corroborate research outcomes. Data was gathered extensively from middle level and senior level employees at selected Metropolitan, Municipal and District Assemblies (MMDAs) in the Volta Region of Ghana. Cross-sectional design techniques was employed to secure information on relevant variables, one time only from selected Metropolitan, Municipal and District Assemblies (MMDAs). Thus a comprehensive questionnaire was designed to collate relevant data necessary to tackle the objective of this study.

Both the qualitative and quantitative approach was employed in the study. Ivankova and Stick (2007) that, neither quantitative method nor qualitative method by themselves are sufficient to give the answers required. Likewise Molina –Azorin (2012) argued that, employing both qualitative and quantitative (Mixed method) for research will give a better understanding of the research questions and provide a stronger inferences on a given data. Also Bisman (2010) indicated that, by either taking interpretive stance or an idealistic approach which concentrates on a specific context may not be able to support generalization, which are required in facilitating policy and practice. Thus Bisman, recommended that, an examination of the behavior of human in accounting field be mixed research method.

3.2 Targeted Population

According to Agyedu et al (1999), population a complete subjects (individuals), events or objects having common observable characteristic which draw the attention of the researcher. Likewise population was referred to as any complete group of entities that the researcher is interested in exploring, and understanding of social phenomenon (Zikmund, 2003). For the purposes of this study, units for analysis consist of employees at some selected Metropolitan, Municipal and District Assemblies (MMDAs) in the Volta Region of Ghana. The population consist of staff of Accounts Department, Internal Audit Unit, Heads of Departments and members of Finance Committee. The selection the above group of individuals were based on the fact that they are key players in performing, monitoring, evaluating and supporting internal audit service within the Municipal and District Assemblies.

3.3 Sample and Sampling Procedure

Gathering data is very essential in undertaking research project, since the data gathered in meant to aid in understanding better theoretical frameworks (Bernard, 2002). Thus in selecting the means of securing data and from whom the data will be acquired, it becomes very vital to focus on sound judgment, since no amount of technical analysis can actually make up for improperly collected data. A sample refers to the proportion of population whose specific element is being studied to secure an information about the targeted group. Sample can also be referred to as a subset of the population. Thus in sampling, care must be taken to ensure that the sample selected represent the total targeted population accurately. The prime motive of sampling according to Fisher (2010) is to obtain an outcome which is representative of the entire population being sampled without

necessarily undergoing the trouble of obtaining information from every member of targeted population.

Purposive sampling technique was adopted for the study. This sampling technique was employed because this study sought to gain an insight into public corporate governance-internal audit phenomenon, thus the demand to choose individuals who were really versed in the industry. Purposive sampling is referred to as an informant technique used widely in ethno botany for selection. It is also known as judgment sampling, as it a deliberate choice of respondents as a result of the qualities inherent in the respondent. It is not a random selection technique which does not requires to be known and set out to obtain people who can and are willing to give the needed by virtue of experience (Lewis and Sheppard, 2006). According to Garcia (2006), purposive sampling can be exemplified especially through the key informant approach where one or few persons are asked to act as guides to a culture. The key respondents are reflective personalities of the community of interest who know more about their culture, observant and willing to provide the needed information.

For the purpose of this study, 5 respondent which consist of Budget Officer, Director, Internal Auditor, Finance Officer and Audit Committee member were selected from five (5) Municipal and District Assembly in the Volta Region. In total, 25 respondent who are versed in the topic under study were sample to complete a designed questionnaire on the topic under study.

3.4 Data Collection and Analysis

There exist two different types of data which are secondary data and primary data. Secondary data is a form of data already in existence and can be access by all. However primary data form are not available though it can be collected and clean (Pellemans, 1999). There are several advantage attributed to the use of secondary data. These advantages include: the ability of the secondary data become familiar with research without necessarily raising much new data, in preparation for the collection primary, it ensue that the researcher specifies the research problem and the research option (Gauthier, 2009).

For this study and for the purposes of attaining our research objective, both the secondary and primary data collection techniques were employed. The researcher obtained secondary data from reports on public sector corporate governance and internal audit, academics articles, Municipal and District assembly report document, internet source and library. With regards to primary data collection, there are many approaches which includes: observation, focus groups, personal interview and questionnaires (Ibnlkhavat, 2005). For the purposes of this study, the researcher employed two methods interviews through open ended questionnaires.

3.5 Questionnaires

A questionnaire method of data collection involves asking individuals series of questions to obtain statistically useful information regarding a particular topic at a particular point in time. Questionnaire method of data collection is the most commonly employed method. It is mostly observe as an efficient instrument for data collection especially when seeking the perception and opinion of individuals on the area of study. Questionnaire that is effectively designed is imperative

to obtaining a good and reliable research outcome in every social research. Based on a research objective and research problem, a questionnaire refer to support that embodies the communication between the individual collecting the information known as the investigator and the individual who answers the question known as the respondent (Ibnlkhayat, 2005). Thus the choice of design and questions of the questionnaire has been done to agree with the expectations of the researcher to address the research questions. The study used questionnaire that are both open ended and closed ended type of question. An open ended questions need the respondent to give in a space provided and express the opinion professionally on the area under study. Open ended question provides vocation to the respondent to freely answer the question. It is normally use when the sample size is small. However, closed ended questions need the respondents to choose which were exhaustive.

The questionnaire for this study was self-administered to persons who have versed knowledge in the subject area within the targeted population. A twenty five (25) item questionnaire was designed and administered to respondent to assess factors determining internal audit practice at the Municipal and District Assemblies and the effect of internal audit practice on public sector corporate governance. The question was divided into four sections; Section A provided the demographic data (it consist of items involving age, experience, level of education, sex and management level), Section B factors determining internal audit practice (consist of nine items), Section C on the effect of Audit Committee on Internal Audit performance (consist of seven items) and finally section D was on impact of internal audit on corporate governance (consist of four items).

Coding of the questionnaire: Some responses for the research questionnaire were coded on a five likert scale as follows:

- Strongly Agree = 5

- Agree = 4
- Not Sure = 3
- Disagree = 2
- Strongly Disagree = 1

Where one (1) is the lowest and five (5) is the highest. Other responses were coded on a five likert scale on as follows:

- Very Effective = 5
- Effective = 4
- Neutral = 3
- Less Effective = 2
- Totally Ineffective = 1

Where one (1) is the lowest and four (5) is the highest

3.6 Data analysis and Interpretation

The information obtained from the respondents was analyse using the Statistical Package for the Social Science (SPSS) software programme. This data was interpreted by using descriptive statistical table and summary. The study employed the thematic content analysis approach in analyzing information obtained from the interviews. The data obtained has undergone transcription and was analysed to identify themes from the data.

CHAPTER FOUR: DATA ANALYSIS, PRESENTATION AND RESULT DISCUSSIONS

4.1 Introduction

The chapter entails the presentation and analysis of the data which was collected through self-administered questionnaires. This chapter as well discussed into detail the result from the analysis. The study employed mixed approach for the analysis of the study area. With regards to the quantitative analysis, descriptive statistics which includes: the means, standard deviations, maximum and minimum values were to explain the salient points of the research. Also graphs and tables were used for some part of the qualitative analysis.

The qualitative aspect analyze the open-ended questions on the questionnaire. The qualitative is done by quoting verbatim what the respondent wrote in response to the open ended questions.

4.2 Demographic Information about the Respondents

The sub-section is very vital as it focuses on of the sex, the educational level, age and experience of the respondents. The respondents of this study were selected using purposive sampling approach as a result of experience and knowledge in the subject area under study. However, the background of these respondents were assessed by the results presented below. Out of 25 questionnaires which was distributed, 21 of them were fill completely and returned. Express in terms of percent, approximately 84 percent represent the return rate.

4.2.1 Gender distribution of Respondents

From table 4.1 below, out of 21 respondent who returned their completed questionnaires 12 of them representing 57.14 percent were females and the remaining 9 were males representing 42.86

percent. It is interesting to know females are dominating the field of Accounting and Finance compare to decades ago. However it must be noted that, the outcome from the gender distribution may not necessarily affect the outcome of the study as a whole.

Table 4. 1 Gender Distribution of Respondents

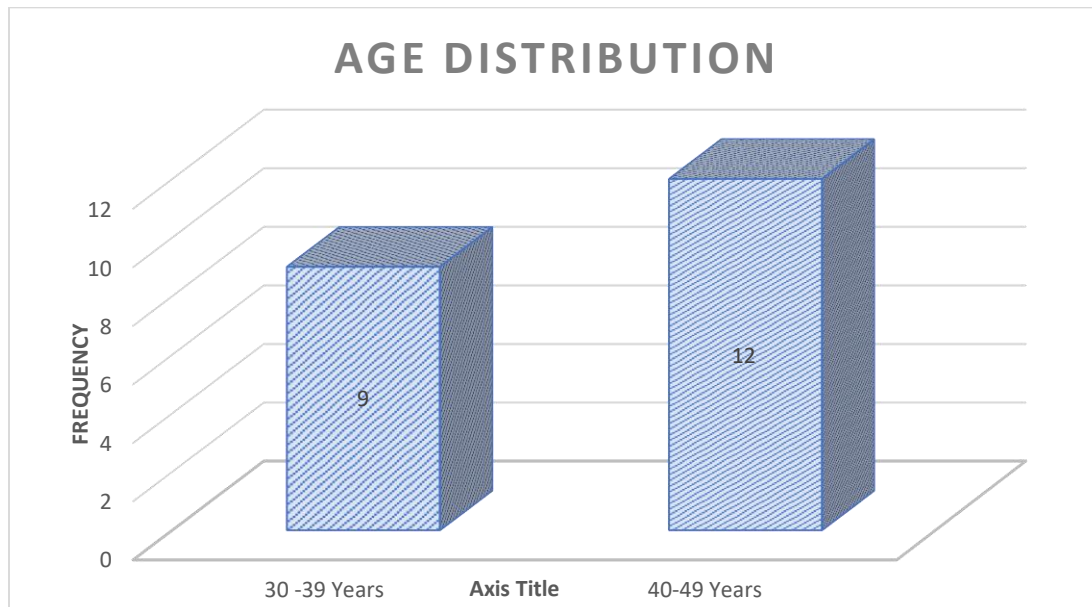
	Frequent	Percent	Cumulative
FEMALE	12	57.14	57.14
MALE	9	42.86	100

Source: Field Data 2019

4.2.2 Age Distribution of Respondents

Figure 4.1 below depicts the age distribution of respondents express within ranges. The age ranges designed for the stay includes: 20-29 years, 30-39years, 40-49years, 50-59years and above 60 years. From the figure 4.1, it can be seen that the respondents are concentrated among two age ranges, which are 30-39 and 40-49. Out of the 21 respondents who completed and return the questionnaire 9 fall within 30-39 age range representing 42.86 percent whilst 12 respondents fall within 40-49 age range representing 57.14 percent.

Figure 4. 1 Age Distribution of Respondents



Source: Field Data 2019

4.2.3. Working Experience Distribution of Respondents

The table 4.2 below depicts the summary of working experience of the respondents expressed in terms of the number of years they serve in the organization. Using the number of years as a proxy for experience might not always reflect the reality. However for lack of other perfect variable the researcher maintained years as a proxy of experience. The ranges for years of experience for this study includes: less than 3 years, 3 -7 years, 8 – 10 years and above 10 years. However from the table 4.2 above, it can be noted none of the respondent actually serve for less than years. All things being equal, it can be noted that the respondents are highly experience and therefore know much about the subject area. The table 4.2 indicates that, 6 out of 21 respondents which represents 28.57 percent actually have been working within the organization for the year range 3 -7 years. Also 9 out of 21 respondents representing 42.57 percent have served in the organization within the age

range 8 – 10 years. Finally, the table 4.2 shows 6 out the 21 respondents representing 28.57 percent actually served in the organization for more than 10 years.

Table 4. 2 Working Experience Distribution of Respondents

YEARS	FREQUENCY	PERCENT	CUMULATIVE
3-7 YEARS	6	28.57	28.57
8 - 10 YEARS	9	42.86	71.43
ABOVE 10 YEARS	6	28.57	100
TOTAL	21	100	

Source: Field Data 2019

4.2.4 Staff Category Distribution

In every organization, be it public or private has different categories of workforce. Within each category there are different levels which reflect increasing levels of responsibilities, authority and requirements. From the table 4.3, it can be observed that majority of the respondents fall within the senior management level. The table depicts that, 42.86 percent of the total respondents are senior management at the district or municipal assemblies. Also 28.57 percent of the total respondent are middle level employees, 3 out of 21 respondents representing 14.29 percent are at the executive level and junior staffs each.

Table 4. 3 Staff Category Distribution

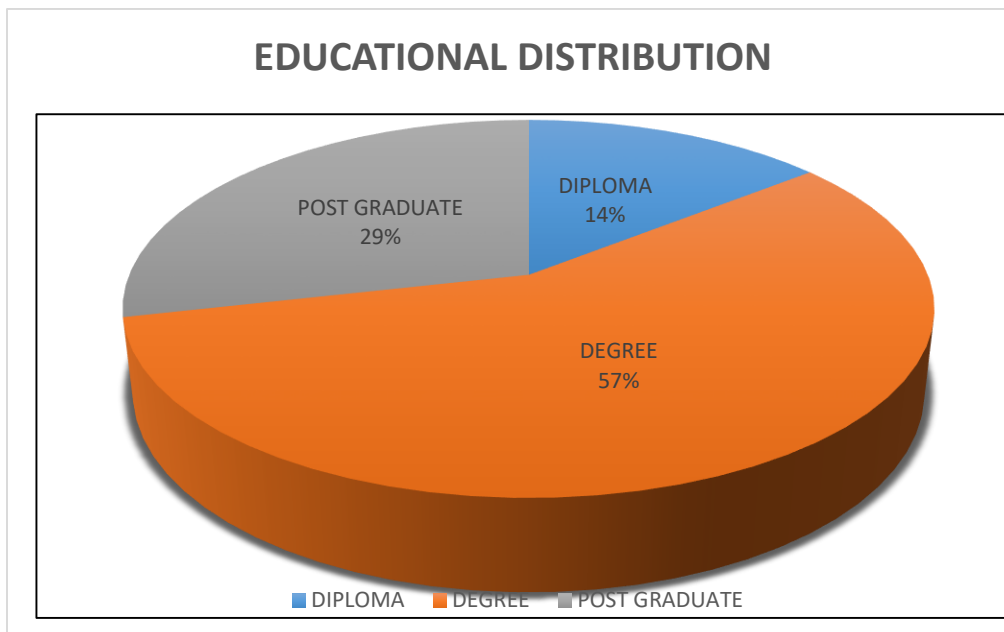
CATEGORY	FREQUENCY	PERCENT	CUMULATIVE
EXECUTIVE	3	14.29	14.29
SENIOR MANAGEMENT	9	42.86	57.15
MIDDLE LEVEL MANAGEMENT	6	28.57	85.72
JUNIOR STAFF	3	14.29	100
TOTAL	21	100	

Source: Field Data 2019

4.2.5. Educational Distribution of Respondents

The level of qualification of internal audit staff is believed to be the major determinant of internal audit practice. From the figure 4.2 below, it can be observed that the staff at the various district and municipal assemblies are highly qualified. Out of 21 respondents, 12 of them representing 57 percent hold first degree. And 6 of them representing 29 percent hold post graduate degree, while just 3 of them represent approximately 14 percent hold diploma. Also the information from figure 4.2 on the educational qualification of the respondents is an indication that all respondents possess an appreciable level of formal education and therefore have the potential to appreciate the importance of the subject under study.

Figure 4. 2 Educational Distribution of Respondents



Source: Field Data 2019

4.3 Factors that Impact Internal Audit Practice

The effectiveness and efficient of the internal audit department of an institution depends certain factors. It is also believe that, an effective internal audit performance affects the financial performance of the institution positively, hence the need enhance the effectiveness of internal audit department. The study therefore sought to find out from the respondents a set of prospective factors that affects effective internal audit practice in five (5) selected Municipal and District Assemblies (MMDAs) in Volta Region. The result from the data on this objective has been depicted in table 4.4 below.

Table 4. 4 Factors that Impact Internal Audit Practice

VARIABLES	OBS	MEAN	STD. DEVIATION
The experience of Internal Auditor Affects the internal audit Practice	21	4.428571	0.5070926
Management Support for the Internal Auditing staff affects Internal audit Practice	21	4.285714	0.46291
The working environment affects the Internal Audit practice	21	4.142857	1.014185
The regulatory framework affects the internal audit practice	21	3.714286	1.189237
The independence of the internal auditor affects the internal audit practice	21	4.571429	0.5070926
Reporting and following up affects the effectiveness of internal audit	21	4.571429	0.5070926

Source: Field Data 2019

The table 4.4 above it can be seen that respondents strongly agreed the experience and qualification of Internal Auditor affects the internal audit practice at the Municipal and District Assemblies

(MMDAs). The means for these factors as depicted in the table is 4.4. On a likert scale used for the analysis, 5 represent strongly agree and 4 is agree, a mean of 4.4 can be best describe as strong agreement. Also the low standard deviation of 0.5 shows the agreement of Experience and Qualification of internal auditors enhancing effective Internal Audit is unanimous among the respondents. Qualification and experience of internal auditors are very essential for the performance of effective internal audit. Al-Twairy et al, (2003) argued that audit requires staffs that collectively possess needed level training, education, experience and professional qualification to be able to carry out the full range of audits. In line with this, Bou-Raad (2010) noted that auditors should possess a higher educational level to enable them to be considered a human resource.

Also, the respondents unanimously agreed that management support for the Internal Auditing staff affects Internal audit Practice as indicated from the table 4.4 with mean of 4.3. The standard deviation for this factor is 0.46 which shows that there is a high level of agreement on the issue. The possible means by which management can support the activities of internal auditing includes; employing qualify professionals, providing needed training for employees, allocation of sufficient budget for auditing department etc. A number of previous research result confirm the outcome is this study. According to Dunfee and Klin (2005), there recent researches which have demonstrated that, support for internal audit by management is essential determinant of effective internal audit service.

Furthermore table 4.4 depicts that, respondents strongly agreed that the independence of the internal auditor promoted effective internal audit service as the means score recorded is 4.6. On a likert scale used for the analysis, 5 represent strongly agree and 4 is agree, a mean of 4.6 can be best describe as strong agreement. The agreement can also be describe to be unanimous due to

low standard deviation 0.5. This outcome is in line with Mautz and Sharaf (2004) argument, that organizational independence is very essential to the effectiveness of internal auditors, as it prevent the internal auditor from being intimidated and enhances the objectivity of Internal Audit service. Internal auditors independency reduces the tendency being loyal to management and provide an auditors a supportive work atmosphere to enable them to conduct their task objectively devoid of pressure.

A regulatory framework as factor which determine effective internal audit has a mean of 3.7 indicating that, on average respondents agree. This is because on a likert scale used for the analysis, 4 represent agree and 3 is agree, a mean of 3.7 can be best describe as agree. However relatively high standard deviation of 1.2 from table 4.4 depicts a level of variation among the respondents as to whether regulatory framework can determine an effective internal audit service at Municipal and District Assemblies (MMDAs). These can be an indication that, there are some Municipal and District Assemblies (MMDAs) which do not necessary follow regulatory framework.

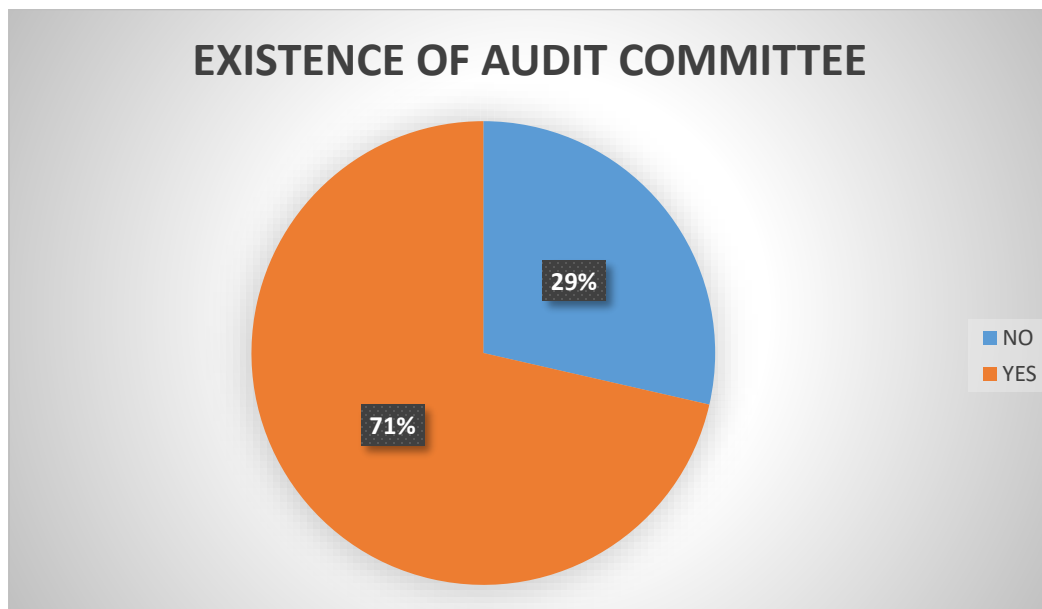
Respondents also agree with a mean of 4.1 that working environment affects the Internal Audit practice at various Municipal and District Assemblies (MMDAs). There is as well a level of disagreement among the respondents as the standard deviation recorded is approximately 1. This can be an indication that, some respondents are of the view that, their working environment is not encouraging and therefore cannot permit effective internal audit practice.

Finally the respondents strongly agree that, reporting and following up affects the effectiveness of internal audit within the Municipal and District Assemblies (MMDAs). This level of agreement can as well be describe as unanimous considering the standard deviation of 0.5 as indicated in table 4.4.

4.4 The Existence and Impact of Audit Committee on Internal Audit Practices

The respondents were questioned whether there exist Audit Committee within the District or Municipal. It has been depicted in figure 4.3 below that, majority of the Municipal and District Assemblies (MMDAs) have Audit Committee. However there is at least one District Or Municipal Assemblies which indicated that, there is no Audit Committee. Out of the respondents who noted there exist Audit Committee, they all indicated that Audit Committee consist of five (5) members. These members includes; Internal Auditor, Administrator, Budget Officer, Head of Finance and Regional Head.

Figure 4. 3The Existence and Impact of Audit Committee on Internal Audit Practices



Source: Field Data 2019

4.4.1 Effect of Audit Committee on Internal Audit

Table 4. 5 Effect of Audit Committee on Internal Audit

VARIABLES	NO	MEAN	STD. DEV
The audit committee is well-structured to facilitate the Internal Audit practices	21	3.571429	1.325573
There is regular communication on financial irregularities between the internal audit staff and audit committee	21	3.285714	1.521278
There is evidence that audit work has been supervised properly by the audit committee	21	3	1.224745
The internal audit finding were acted upon timely by audit committee	21	3.142857	1.38873
The internal audit reports are discuss by the audit committee	21	4	1.341641

Source: Field Data 2019

The respondents fairly agreed that, Audit Committee within the Municipal and District Assemblies (MMDAs) are well-structured as indicted from table 4.5. On a Likert scale of 1 to 5, with 1 representing strongly disagree and 5 meaning strongly agree, an average of 3.5 can be interpreted as fair agreement. However the high standard deviation above 1 is a clear indication of high level of variation on the answer provided by the respondents. Also meaning some of the respondents are of the view audit committee at some Municipal and District Assemblies (MMDAs) are well-structured. This result can be unfavorable for the effectiveness of Internal Audit practices within the Municipal and District Assemblies (MMDAs). As it was noted that, an effective audit committee couple with a very high management integrity can assist the internal auditors to perform their duty ethically when in a dilemma (O’Leary and Stewart, 2007).

Information flow is very essential for the performance of any organization. According to the IIA (2005), the Internal Audit and the Audit Committee roles are very interdependence and there should be accessible mutually. Communication between the Audit Committee and the Internal Audit units is mostly done through written Audit Report which is usually issued upon completing an Audit. From table 4.4 above, a question which sought to find out the regularity of communication of Internal Audit Staff and Audit Committee obtained an average of 3.3. This mean of 3.3 per the scale can be describe as the respondents being neutral. In other words, the respondents on average cannot ascertain effectiveness of communication among the audit committee and internal audit units. A standard deviation of 1.5 can be noted that, there is a wide variability among the respondents with regards to the answer of this question. Where some strongly believe there is an effective communication within the Municipal and District Assemblies (MMDAs), other strongly disagreed with the statement.

Also the role of the Audit Committee is to provide supervisory role over the internal Audit Units. The main responsibility of the Audit Committee is to oversee the functions of Internal Audit (Haron et al., 2010). A question was therefore posted to the respondents to ascertain the level of supervisory role being played by the Audit Committee within the Municipal and District Assemblies (MMDAs). From table 4.4 above, it can be observed that, the question obtained a mean of 3, which represents neutrality of respondents on average. The standard deviation of 1.2 is very high, which signifies high variability among.

Furthermore, it is the responsibility of the Audit Committee to act upon reports publish by the Internal Audit unit. A question sought by the researcher to find out, if the audit reports are discussed by Audit Committee. The respondents on average agreed that, the Internal Audit report at the Municipal and District Assemblies (MMDAs) are being discussed by the Audit Committee

as the average score depicted by table 4.4 above is 4. However, there is a high level of standard deviation signifying high level of disagreement on the issue by the respondents.

Finally, the respondents were asked whether the Internal Audit reports are being acted upon timely by the Audit Committee. Table 4.4 above depicted that, the respondents on average do not agree or disagree to the statement that audit reports are being acted upon on time. The mean value for this variable is 3.1 which best to be described as neutrality. There is however a variability in the response from the respondents as the standard deviation recorded in table 4.4 above is 1.3.

4.5 The Impact of Internal Audit on Corporate Governance

Traditionally the responsibility of the internal auditor was to aid the company to maintain a system of internal control of its financial statements. However in recent times, a range of new opportunities, responsibilities and possibilities present themselves in the light of corporate governance. Putting in different words, an internal auditor must endeavor to become a key tool to promote effective corporate governance processes.

The prime motive of this study is to ascertain the effect of Internal Audit practices on corporate governance. Literatures both theoretical and empirical have it that, an effective internal audit practices leads to a good corporate governance. According to Cattrysse (2005), there exist a strong relationship between corporate governance and management, the Audit Committee and corporate governance and internal control.

From the table 4.6 below, the respondents fairly agreed that there is an impact of internal audit practices on good corporate governance at the Municipal and District Assemblies (MMDAs). The average of the responses is 3.9, which can be described as in agreement with the statement that Internal Audit impacted on good corporate governance. The standard deviation less than can be

describe as relatively less variability in the opinion of the respondents. It can therefore be said that, Internal Audit has improved upon the level of corporate governance at the Municipal and District Assemblies (MMDAs)

Table 4. 6 The Impact of Internal Audit on Corporate Governance

VARIABLE	OBS	MEAN	STD. DEV
To what extent has Internal Auditing impacted on good corporate governance	21	3.857143	0.853564
To what extent has Internal Auditing evaluate effectiveness of policy implementation in the organization.	21	3.571429	1.075706
To what extent has Internal Auditing identify issues involving potential waste in resources.	21	4	0

Source: Field Data 2019

The respondent were also asked if Internal Audit evaluate effectiveness of policy implementation. Policy evaluation is very essential for the performance of an organization, since evaluation will inform management if the policy is effective or ineffective. The respondents fairly agreed on average that, internal audit evaluate policy effectiveness at the Municipal and District Assemblies (MMDAs). The table 4.6 depicted the mean value of 3.6 which can be interpreted as an agreement on average on the variable under consideration. However the standard deviation of 1.1 is an indication of disagreement among the respondents. That is, whilst some respondents agreed internal audit evaluates policy effectiveness at their District or Municipal Assembly, others are noted it does not happen at the District or Municipal Assembly.

Finally all respondent unanimously agreed that, internal audit identify issues involving potential waste in resources at the Municipal and District Assemblies (MMDAs). The table 4.6 depicted an average of 4.0 which is exactly an agreement according to the likert scale. Interestingly there is no

variability in the opinion of the respondent as the standard deviation is 0. Meaning all 21 respondents responded in agreement that, Internal Audit identify issues involving potential waste in resources at the Municipal and District Assemblies (MMDAs).

Respondents were given opportunity to outline the possible role Internal Audit in the improvement of corporate governance at the Municipal and District Assemblies (MMDAs). Most indicated that, internal audit protect the misuse of the assemblies resource. Example of a response from one respondent *“Internal Audit safeguard Asset and property of their organization, they ensure the enforcement of internal control and internal auditors serve as certifying officers in their organization”* Another *“Safeguarding the resources of the Assembly”* Also one respondent noted *“Internal Audit function helps to streamline issues pertaining to financial regulations which in the long help in achieving Corporate goal”*

CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDTION

5.1 Introduction:

This chapter focuses on the research summary, summary of the major finding based on the responses from the targeted sample who completed the questionnaire, the research conclusion and if necessary recommendation on ensuring good corporate governance through the use of effective internal audit practices.

5.2 Summary

One of the most vital condition of survival of firms lies on the ability of the firm to efficiently attain its objectives. Internal control practices of an organization is touted as crucial to the success of the organization whether public or private. Internal Control acts as a powerful mechanism to correct the possible deviation from the pre-determined policies and objectives. What this suggests is that, any firm or organization which put in place adequate and appropriate measure of internal control is likely to improve the performance of the organization.

Internal Audit practices is one of the internal control measures used by organizations to improve their corporate governance which will in turn improve financial performance. Although there exist Internal Audit in most organizations especially public ones, Knight (2003) noted that instructional malfeasance and mismanagement have become more consistent and endemic in these organization. Municipal and District Assemblies (MMDAs) cannot not be excluded from this menace. Hence the researcher has developed keen interest in studying the effect of Internal Audit and corporate governance of the selected Municipal and District Assemblies (MMDAs) in the Volta Region. Specifically the study investigate factors affecting Internal Audit Practice in Municipal and District

Assemblies, investigate how Audit Committee affect Performance of Internal Audit at Municipal and District Assemblies and finally determines the effect of Internal Audit on Corporate Governance at Municipal and District Assemblies.

Five municipal and District Assemblies were selected for this study. These include Ho Municipal Assembly, Adaklu District Assembly, Hohoe District Assembly, Central Tongu District Assembly and Afadjato South District Assembly. Five staff were sample from each Municipal and District Assemblies by using purposive sampling method. These staffs includes: staffs from The Internal Audit department, staff at Budget Office and staff from the Finance Department. In all 25 people were given a designed questionnaire to complete. However only 21 were able to complete the questionnaire and able to return it for this analysis.

5.3 Summary of Major Findings

5.3.1 Factors that Impact Internal Audit Practice

The result from the analysis indicated that, qualification and experience are very essential for an effective Internal Audit practices at the Municipal and District Assemblies. From the outcome, it is also seen that, the internal auditors at the various Municipal and District Assemblies are highly qualified and experience.

Also, it was found that independency of the internal auditors at the various district and municipal Assemblies are very important for an effective internal audit practices. This confirmed the general believe in literature that, an independence Internal Auditor result into an effective Internal Audit practices.

A regulatory framework also found as factor which determines effective Internal Audit at Municipal and District Assemblies. Following the necessary rules and frameworks strictly is an important element for an effective internal practices and helps to put into use organizational resources effectively.

In every organization and department, environment's conduciveness is very crucial to the performance of employees. The study outcome confirmed this believe, that working environment is one of the determinant of effective Internal Audit practices. The study found that, working environment is necessary for effective Internal Audit practices at the Municipal and District Assemblies.

Finally, under the determinants of effective Internal Audit, the study found that reporting and following up affects the effectiveness of Internal Audit within the Municipal and District Assemblies (MMDAs).

5.3.2 Impact of Audit Committee on Internal Audit Practices

Audit committee's responsibility is to oversee the activities of the Internal Audit practices. An active and effective Audit Committee therefore promotes effective Internal Audit practice. This study found that, not every Municipal or District Assemblies have a function Audit Committee. However those that have functional Audit Committee are found to be fairly well-structured.

It also found that there have not been a regular communication on financial irregularities between the Internal Audit staff and Audit Committee at the Municipal and District Assemblies. However the relationship between the Audit Committee and Internal Audit, is one that needs constant and

consistent communication. In the absence of effective communication, the activities of the Audit Committee may be ineffective.

The study result also indicated that audit work has not been supervised properly by the Audit Committee at the Municipal and the District Assemblies. This outcome is not favorable for Internal Audit practices at the Municipal and the District Assemblies.

Finally under audit committee impact on internal audit, the study found that the Internal Audit reports are discussed by the audit committee at the Municipal and the District Assemblies. However the study noted the internal audit findings were acted upon timely by the audit committee.

5.3.3. The Impact of Internal Audit on Corporate Governance

Traditionally the responsibility of the Internal Auditor was to aid the company to maintain a system of internal control of its financial statements. Putting in different words, an internal auditor must endeavor to become a key tool to promote effective corporate governance processes. The study fairly confirmed this literature of Internal Audit improving corporate governance. The study found that, there is an impact of Internal Audit practices on good corporate governance at the Municipal and District Assemblies (MMDAs).

The study also found that, Internal Auditing evaluates the effectiveness of policy implementation in the organization and also Internal Auditing identifies issues involving potential waste in resources at Municipal and District Assemblies.

Some respondents note that “*Internal Audit safeguard Asset and property of their organization, they ensure the enforcement of internal control and internal auditors serve as certifying officers in their organization*” Another “*Safeguarding the resources of the Assembly*” Also one respondent

noted “*Internal Audit function helps to streamline issues pertaining to financial regulations which in the long help in achieving Corporate goal*”.

5.4 Conclusion

From the analysis above it shows various Municipal and District Assemblies (MMDAs) possess the needed staff in terms of qualification and experience. However, there are insufficient staffs in terms of numbers. It was found that qualification and experience of Internal Audit staff, management support of Internal Audit activities are the major factor that affect Internal Audit practices.

Also the result indicates that, the existence and the role of Audit Committee in promoting effective audit practice at the Municipal and District level has not been effective. Per the outcome of the study there has not been regular communication on financial irregularities between the Internal Audit staff and Audit Committee within the Municipal and District level. Also Internal Audit work has not been supervised properly by the Audit Committee at the Municipal and District level. Though Internal Audit reports are being discussed by the Audit Committee, Internal Audit findings were acted not upon timely by Audit Committee.

Furthermore the study found that, effective Internal Audit practices impact good corporate governance of municipal and district assemblies. Internal Auditing has evaluate the effectiveness of policy implementation at the Municipal and District Assemblies (MMDAs). As well as Internal Audit identifying issues involving potential waste in resources Municipal and District Assemblies (MMDAs). From the above analysis, for government to ensure effective use of resources which will ultimately result into increase productivity at the Municipal and District Assemblies (MMDAs), Internal Audit practice must be improved. Because effective internal practice lead to

good corporate governance. Good corporate governance result into effective use of scare resources, which will ultimately lead economic growth.

5.5 Recommendation

The study recommended the following based on research outcome

- i. The various Municipal and District Assemblies (MMDAs) must ensure additional internal audit staffs are recruited.
- ii. All Municipal and District Assemblies (MMDAs) which are not having Audit Committee should endeavors to constitute Audit Committee
- iii. Where there exist Audit Committee, there should be proper education to ensure they know the responsibilities. That is, there should constant communication between Audit Committee and Internal Audit staff.
- iv. In-service training should be organized regularly to improve their experience level since qualification and experience are major determinants of effective Internal Audit

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PART 2

Factors that determine internal audit practices

Indicate the extent to which you agree or disagree with the following statements by ticking the appropriate response where 1= strongly disagree 2= disagree 3=neutral 4=agree 5= strongly agree

Statement	1	2	3	4	5
6.The qualification/experience of the internal auditor determines the internal audit practice					
7.Management support for the internal auditing staff determines the internal audit practice					
8.The working environment determines the internal audit practice					
9.The regulatory framework determines the internal audit practice					
10.The independence of the internal auditor determines the internal audit practice					
11. Reporting and follow up affects the effectiveness of the internal audit					

12. Is the internal audit unit adequately staffed in terms of number

(a) Yes (b) No

Qualification

(a) Yes (b) No

Experience

(a) Yes (b) No

13. How effective has the work of internal audit being on your outfit?

a. Very ineffective b. ineffective c. Not sure d. effective e. very effective

15. Give additional comment on factors that determines the internal audit practice?

PART 3

Factors that determine effect of Audit Committee on internal audit performance

15. Is there the existence of Audit Committee?

(a) Yes (b) No

16. If Yes, what is the composition of the Audit Committee?

.....

.....

.....

.....

Indicate the extent to which you agree or disagree with the following statements by ticking the appropriate response where 1= strongly disagree 2= disagree 3=neutral 4=agree 5= strongly agree

Statement	1	2	3	4	5
17. The Audit Committee <i>is</i> well-structured to facilitate the internal auditing activities					
18. There any regular communication on financial irregularities between the internal audit staff and Audit Committee					
19. There is evidence that audit work has been supervised properly the Audit Committee					
20. The internal audit findings acted upon timely by the Audit Committee					
21. The internal audit reports are discussed by the Audit Committee					

