



To cite this article: Ofori, C.F. Lu, L. (2018). *The Evaluation of Internal Audit Functions for Effective Public Sector Administration. A Survey of Accra Metropolitan Assembly, Ghana*, International Journal of Academic Research in Accounting, Finance and Management Sciences 8 (2): 19-27.

<http://dx.doi.org/10.6007/IJARAFMS/v8-i2/4076> (DOI: 10.6007/IJARAFMS/v8-i2/4076)

The Evaluation of Internal Audit Functions for Effective Public Sector Administration. A Survey of Accra Metropolitan Assembly, Ghana

Collins Frimpong OFORI¹, Li LU²

^{1,2}Department of Accounting, Zhongnan University of Economics and Law, Wuhan, China,

¹E-mail: ofori.collins@yahoo.com

Abstract

This study examines the effectiveness of internal audit unit at the public sector within the local government level in Accra Metropolitan Assembly with a view to finding out how internal audit unit exists and its level of independence. Primary data were collected through questionnaires administered on a sample of one hundred (100) staff drawn randomly from eight (8) Public sector organizations within the Accra Metropolitan Assembly in Ghana. The data collected was first summarized and presented by means of Table and chart. A key table used was the frequency distribution table. The data presented were analyzed through percentages. The evidence from the study indicates that the internal auditors are focusing their activities more on compliance with laws and regulations and detections of errors and fraud. The scope of the internal audit activities pays very little attention to risk management and project evaluation. The Public sector internal auditors lack proper independence in conducting their duties. The internal audit units of MDAs are understaffed and they experience excessive work load. It can be concluded from the above that, the internal audit units are not very effective as a tool of good corporate governance system in the MDAs.

Key words

Internal audit units, effectiveness, functions, metropolitan, municipal, district assembly

Received: 25 Mar 2018 © The Authors 2018

Revised: 08 Apr 2018 Published by Human Resource Management Academic Research Society (www.hrmars.com)

Accepted: 30 Apr 2018 This article is published under the Creative Commons Attribution (CC BY 4.0) license. Anyone may reproduce, distribute, translate and create derivative works of this article (for both commercial and non-commercial purposes), subject to full attribution to the original publication and authors. The full terms of this license may be seen at: <http://creativecommons.org/licenses/by/4.0/legalcode>

Published Online: 15 May 2018

1. Introduction

Today, several forces have led to a discreet revolution in internal audit. Social equality requires the government to be answerable for its use of public money and in providing practical, economically, and efficient service delivery. “Ever larger and more complex organizations require greater proficiencies. Thus internal audit has had to become ever more professional” (Van Gansberghe, 2003.) The general trend in all public sector failures includes poor corporate governance culture, exemplified in a bad management, fraud and insider abuse by employees, management, and board members, distressed asset and liability management, lack of regulations and supervision among others. Improper accountability has been identified as one of the major factors in virtually all known instances of public sector financial distress.

Public sector accountants have the responsibility of raising systematic arrangements to assist management in the performance of the services of the institution, and the internal auditor of the public sector among other duties has the complementary role to examine whether organization performs that efficiently. The public sector account has to satisfy himself that the accounts presented have been prepared by statutory and constitutional desires and regulation and that proper accounting practice has been observed in their compilation. With the increasing size and complexity of open sector in the recent years,

the importance of the internal audit has correspondingly improved. In Ghana, there have been several instances or revelations of ineffective internal controls, especially in the public segment. Thus the Accountant General's report on the public accounts was more precise during the periods 31st December 2006-2008 revealed some serious shortcomings which need to be addressed to ensure prudent management of resources. The findings were as follows: unacquainted payments presented payment vouchers and misappropriation of revenues and other receipts. Others are contracting irregularities, poor debt management, and huge debt stock. The rest are procurement without entity tender committee approval, illegal payment and drawing of salary as well as bank lodgments' not reflecting in bank statements; just to cite a few. It was also alleged that there is no internal auditor at the then Ministry of Tourism and Diaspora Relations at the time.

Recently, at the Public Accounts Committee (May 2011) sittings at the Parliament House of Ghana, where the audited accounts of public second cycle institutions were considered. "Where the internal controls and the internal checks are before one individual could misappropriate public funds of that magnitude concurrently undetected; remarked the Chairman of the committee". This clearly shows that there is laxity in the management of financial resources in the public sector. It is in this vain that mechanisms such as the Internal Audit Agency Act 2003 (Act 658); was put in place to strengthen and closely monitored to check and avert the inaccuracies to ensure efficiency and proper utilization of resources for the achievement of performance goals.

1.1. Statement of the problem

Internal audit is an integral part of the finance structure of public organizations. Efforts have been made over the years to curtail and eliminate the financial improprieties and inaccuracies in the public sector in Ghana. The recent one being the establishment of the Internal Audit Agency through the passage of the Internal Audit Agency Act 2003 (Act 658). Which requires all MMDAs in Ghana to create Internal Audit Unit in their establishments to strengthen internal controls so as to check or avert the inaccuracies in financial management in the public sector. However, in spite of the several interventions over the years and the existence of the Internal Audit Units in the public sector organizations in Ghana, it appears the financial improprieties and inaccuracies continue to persist, and this needs to be investigated to find out the reasons accounting for these shortcomings. It is, therefore, incumbent upon every establishment, irrespective of its size or sector to ensure effective and efficient utilization of resources allocated to it for ultimate execution of the task and the activities being undertaken in an efficient manner.

Misappropriation of funds and corruption are now the order of the day in the public sector in all countries due to weak internal control systems (Van Gansberghe, 2005). According to Zeleke (2007), the internal audit activities help to prevent corruption, misappropriation of funds and other financial irregularities and ensure effective and efficient utilization of resources to achieve the objectives of the organization. In the controversies for public sector performances, Ghana as a developing economics and Accra Metropolis. In particular, has to garner her resources for effective developmental utilization and the need for the services of Internal Auditors in the Public Sector becomes more imperative, hence this research into the effectiveness of Internal audits units as an instrument of improving Public Sector Management.

2. Literature review

In one of the very few studies that examined the effect of internal auditing on organizational performance, Eden and Moriah (1996) assigned 224 bank branches to experimental conditions (audited or not audited) and monitored their performance for a year. Their findings showed that performance significantly improved during the half year following the audit in the experimental branches, while the control branches experienced a decline due to poor general business conditions. "There are two main approaches to the concept of IA effectiveness. According to the first approach, the effectiveness of internal auditing is determined by the fit between the audit and some set of universal standards extrapolated from the characteristics of IA (White, 1976)".

Such an approach was presented by Sawyer (2003), who advanced five standards for internal auditing: interdependence, professional proficiency, and "Albrecht *et al.* (1988), in a study sponsored by

the Institute of Internal Auditors (IIA), identified 15 criteria used by 13 large private organizations to evaluate the effectiveness of internal auditing. They concluded that efficiency is determined mainly by the fit between the auditing work and the goals set by managers, the qualifications of the internal auditor, management support for the internal auditing staff, and several characteristics of the internal auditing department". "Lampe and Sutton (1994) identified 15 factors that contribute to an effective audit and categorized them into three stages of the auditing process: planning, fieldwork, and reporting and review. They suggested measurements they considered valid and reliable for these factors. More recently, Ziegenfuss (2000) developed a questionnaire that includes 84 criteria for effectiveness categorized into four main areas: the environment of the internal audit, input into the audit, the auditing process and the output of the audit.

This brief review shows the need for a more comprehensive study of the issue of internal audit effectiveness. The Internal Audit Unit exists to carry out the following:

- Audit and professionally evaluates the activities of the public sector and to ensure that the system of Internal Controls applicable to financial, programs and project areas provide reasonable assurance to management, and that: Managerial, financial, and operating information reported internally and externally are accurate, reliable and timely.

- That economic activities of ministries, departments and agencies, municipals and district assemblies are in compliance with laws, plans standards, and policies.

- Possessions are safeguarded, in that; public resources are used economically, effectively and efficiently.

- Goals and objectives of ministries, departments and agencies, municipals and district assemblies are achieved; Risks are effectively managed. Investigate assertion of fraud, misappropriation or possible loss of public assets and properties and suggest corrective and preventive measures avoid future mishaps.

- Provide a means for keeping the government fully and currently informed about problems and deficiencies related to the administration of its programs and operations and the necessity for appropriate corrective action.

- Consultation is provided to line management wherever they seek Internal Audit's views in resolving complex issues confronted by them.

- Review new products, services, and computerized systems being proposed (before the signing of to be offered) to government organizations to ensure adequacy of controls therein.

- Review policies and procedures before their finalization to check necessary controls are in place.

- Provide suggestions for improving the control environment around the various department of the public sector.

As a result of the inconsistencies in the public sector and because the public sector entities have to answer the users' continuously increasing demands for various and quality public services, requests for higher public and social responsibility, as well as Strictness to performance and transparency about how public funds are used.

2.1. The Internal Audit Functions

Arena and Azzone (2009) view internal auditing as a value adding function to an organization as this service now incorporates a new link to internal control i.e. risk management. According to this study, internal auditors have embraced value addition approach by transforming their functions and extending their involvement areas to risk management, control, and governance processes. Internal audit effectiveness is seen as a function of three key variables namely the characteristics of the internal audit team, the Audit procedures and activities, and the organizational links. Internal audit effectiveness will result in the efficiency of each auditee and the company at large (Ditternhofer, 2001). Further, where the internal audit quality is ensured, there will be appropriateness in procedures and operations of the auditee, resulting into auditees' effectiveness and the company as the whole (Ditternhofer, 2001).

Also, where the internal audit is effective, it has an advantage over external audit as it helps to accumulate quickly, the information needed in solving a particular problem and facilitate solving the problems at an early stage (Xiangdong, 1997). Organizations have encountered quick changes in economic

complexity, enlarged regulatory requirements, and innovations advancements in recent years (Hass *et al.*, 2006).

“According to Chun (1997), the function of internal audit is a vital and controversial problem in auditing theory and practice worldwide”. “There has been a widespread view in the western auditing circles that internal audit is an independent appraisal function” (Chun, 1997). In June 1999, the Institute of Internal Auditors (IIA) officially adopted a new definition of the internal auditing function. The new definition was developed by the Guidance Task Force and defines the internal audit function as: “An independent, objective assurance and consulting activity designed to add value and improve an organization’s operations.” “It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes” (IIA, 2001).

Below are the salient points in the Institute of Chartered Accountants in England and Wales Statement 44: “These main points have been enforced in APB SAS 51) and ISA 610 'Considering the work of internal auditing”.

2.2. Specific Internal Audit Functions

- To review the control system and to identify weaknesses, breakdown and to report to management with recommendations.
- To design checks to reveal the existence of frauds or to prevent frauds.
- To rationalize accounting policies within a group and to design and implement new accounting systems.
- To conduct management efficiency audits and post-implementation audit of capital projects.

2.3. Outsourcing of the Internal Audit Function

Outsourcing and Co-sourcing of internal audit services have become widespread in recent years (Ernst and Young, 2006; Caplan and Kirschenheiter, 2000). While it is no longer acceptable for external auditors to provide internal audit services to their audit clients (Sarbanes-Oxley, 2002), such services are delivered by both public accounting and specialist firms to non-audit clients (Ernst and Young 2006). A recent study of Australian publicly listed firms by Carey *et al.* (2006) suggests that 45% of the 99 respondent firms that utilized an internal audit function had outsourced some or all of their internal audit activities.

3. Methodology of research

A sample size of hundred (100) respondents from the total population of the public organizations which included Ghana Education Service, Ghana Health Service, Judicial Service, Audit service, organizations from Electricity company of Ghana, Ghana Water Company, and Controller. Also, Accountant General in the Accra Metropolis in the Greater Accra region was interviewed using both structured and unstructured type of interview and questionnaire. The total respondents included 20 management staffs, 20 accounts officers, ten operations personnel, 30 internal audit staffs, five national service workers and 15 other staffs to make up the 100 respondents. Two data collection methods including self-administered questionnaires and personal interviews were used to gather primary data from respondents. Besides, journals, public records and reports, internet, relevant books, statutes etc. were consulted for secondary information. The results were presented in tables and charts using Microsoft excel and with their interpretations. The data collected was first summarized and presented by means of Table and chart. A key table used was the frequency distribution table. The data presented were analyzed through percentages.

4. Analysis, Findings and Discussions

4.1. Introduction

This section presents the results of the study undertaken and gives an interpretation to the data obtained. It discusses into detail the field work carried out as well as the performance. The discussion attempts to accomplish the objectives of the study. A total of 100 questionnaires which seek to deal with the evaluation of the effectiveness of internal audit units were distributed to the respondents. However,

only 85 questionnaires were collected out of which 80 surveys had usable responses (80% response rate). Compared to other research studies and considering the difficulty of collecting data in developing countries such as Ghana, an 80% response rate was reasonably good. All the survey respondents were located in Accra.

4.2. Personal data of respondents

This section examines the personal data of all the respondents used for the study regarding gender, job titles, ages and so forth.

Table 1. Gender of respondents

Gender	Frequency	Percentage
Male	30	37.5
Female	50	62.5
Total	80	100

Source: Researcher’s field work 2017

The researcher was interested in the gender distribution of all the respondents used for the study. Table 1 shows that, out of the 80 respondents, 30 of them were females which constitute 37.5% of the total size. The remaining 62.5% which makes 50 frequencies were revealed as males.

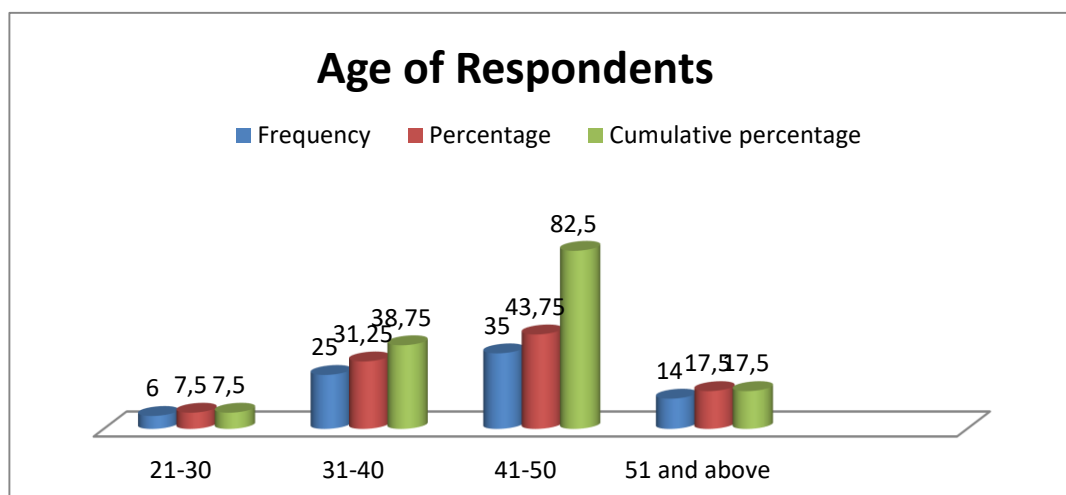
Table 2. Age of respondents

Age	Frequency	Percentage	Cumulative percentage
21-30	6	7.5	7.5
31-40	25	31.25	38.75
41-50	35	43.75	82.5
51 and above	14	17.5	17.5
Total	100	100	100

Source: Researcher’s field work 2017

Table 2 represents the age groups of the total respondents for the research. From figure 1, the researcher found out that, the majority of public sector workers fall within 41-50 years which represents 35 respondents/frequencies making 43.75% of the total sample. 25 respondents representing 31.25% were in 26-30 years, 14 respondents representing 17.5% were in 51 and above years, and the remaining six respondents representing 7.5% were in their ages of 20-25 years. This is shown in figure 1 below.

Figure 1. Bar Chart of Table 2



Source: Researcher’s field work 2017

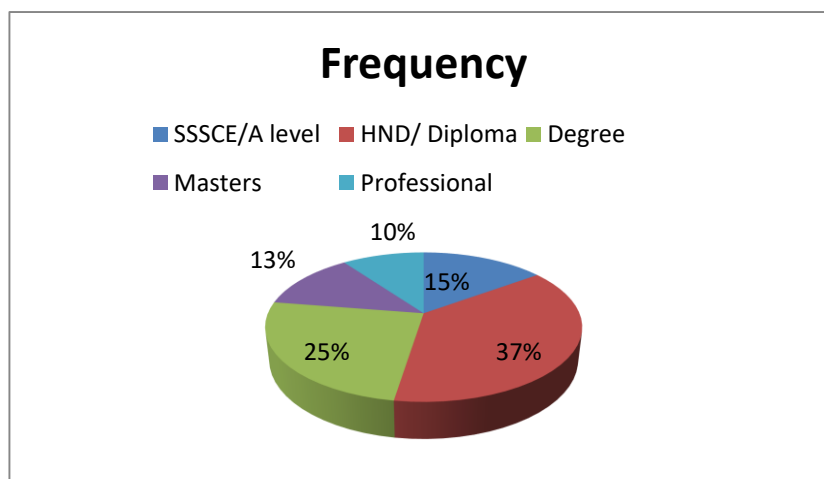
Table 3. Respondents’ level of education

Qualification	Frequency	Percentage (%)
SSSCE/A level	12	15
HND/ Diploma	30	37.5
Bachelor Degree	20	25
Master Degree	10	12.5
Professional Accountants	8	10
Total	100	100

Source: Researcher’s field work 2017

About qualification 30 respondents representing (37.5 %) of respondents had HND/Diploma. 20 of the interviewees, representing 25% were degree holders, while 12 respondents representing 15% had SSSCE/A Level Certificates, ten respondents representing 12.5% had Mastered, and eight respondents representing 10% of them had Professional qualifications (Figure 2).

Figure 2. Pie chart of those surveyed’ level of education



Source: Researcher’s field work 2017

4.3. Functions of the Internal Audit Unit

In this section, the researcher wanted an idea of the respondents as to duties of the internal auditor in the public sector organizations and how well the internal auditors perform those duties. The study also revealed that over 87.5% believed that internal auditors prepare annual audit plan while the remaining 12.5% were either Neutral or disagreed with the question. On risk assessment, as part of audit planning 76.3% agreed, 10% were neutral, the remaining 13.7% disagreed. Audit work is documented and maintained in a file of audit working papers the majority of responses (87.5%) agreed with this. Regarding the conduct management efficiency audits and post-implementation audit of capital projects half of the respondents (50.1%) believed so, 44% did not have any idea, and 5.9% disagreed.

Review the activities of the organization for compliance with relevant policies, laws, rules and regulations; over 80% agreed, the remainder either disagreed or were neutral. The response to the question internal audit provides give advice/views on internal controls of all systems including ICT systems aroused mix reaction since 47.5% agreed on while 48.75 % disagreed. On reporting audit findings to management and to take follow-up action on issues raised was agreed by respondents as a function of internal audit units. The study also revealed that 91.3% of respondents agreed that internal auditors

present their review outcome at the Audit Committee and Financial Management and Accounts Committee meetings.

Table 4. Functions of the Internal Audit Unit

Questions	SA	%	A	%	N	%	D	%	SD	%
1. Annual internal audit plan is prepared	28	35	42	52.4	4	5	3	3.8	3	3.8
2. Risk assessment is done as part of audit planning	23	28.8	38	47.5	8	10	6	7.5	5	6.2
3. Audit work is documented and maintained in a file of audit working papers	50	62.5	20	25	8	10	2	2.5	0	0
4. To conduct management efficiency audits and post implementation audit of capital projects.	15	18.8	25	31.2	35	43.8	1	1.2	4	5
5. To review the activities of the organization to determine whether they are conducted in an economic, efficient and effective manner;	40	50	24	30	4	5	10	13	2	2.5
6. To review the compliance of relevant policies, laws, rules and regulations;	40	50	24	30	10	12.5	4	5	2	2.5
7. To review the safeguarding of assets and interests of the organization against loss, fraud and abuse;	50	62.5	20	25	8	10	2	2.5	0	0
8. To provide advice/views on internal controls of all systems including ICT systems;	60	75	15	18.8	5	6.2	0	0	0	0
9. To report audit findings to management and to take follow-up action on issues raised;	58	72.5	16	20	6	7.5	0	0		0
10. To present the Internal Audit Report at the Audit Committee and Financial Management and Accounts Committee meetings.	51	63.8	22	27.5	5	6.2	2	2.5		0

Source: Researcher's field work 2017

The interview also listed the following as the functions of internal audit: They design checks to reveal the existence of frauds or to prevent frauds. They rationalize accounting policies within a group and to develop and implement new accounting systems. They conduct management efficiency audits and post-implementation review of capital projects.

4.4. Discussion

The inside local audits functions in the public sector of Ghana are to review the activities of the MDAs to determine whether they are conducted in an economic, efficient and effective manner. Discuss the safeguarding of assets and interests of the MDAs against loss, fraud, and abuse. The Unit also prepares the Internal Audit Annual Plan and the Internal Audit Annual Report, conducts management efficiency audits and post-implementation audit of capital projects and reviews the reliability and effectiveness of the financial and internal control systems of their organization.

5. Conclusions

The evidence from the study indicates that the internal auditors are focusing their activities more on compliance with laws and regulations and detections of errors and fraud. The scope of the internal audit activities pays thus pays little attention to risk management and project evaluation. The Public sector internal auditors lack proper independence in conducting their duties. The internal audit units of MDAs are understaffed, and they experience excessive workload. It can be resolved from the above that, the internal audit units are not very effective as a tool of the good corporate governance system in the MDAs.

6. Recommendations

Based on the findings enumerated above, the following recommendations are proposed for the consideration of Internal Audit Agency, Management of the MDAs and the Internal Auditors: The internal auditors at all levels should be entirely independent so that they can carry out their duties effectively. ARICs of these MMDAs should assist in this regard.

It should be ensured that internal auditors regularly attend great seminars, workshops and other training programs that would help improve their effectiveness on financial and other controls. The internal audit units need to be adequately resourced regarding staff and other logistics including the use of appropriate technology. Internal Audit Staff should be motivated through strategies such as efficient feedback systems, self-fulfillment, self-esteem, creativity, and participation in goal setting. In this vein, internal audit units should be evaluated for their efficiency, effectiveness, and economy.

References

1. Arens A. A. Elder. R. J. Beasley. M. S. Jenkins. J. G. and Techn. V. (2006). Auditing and Assurance services: an integrated approach. New Jersey: Pearson Prentice Hall.
2. Association of the Internal Auditors of the Universities of Ghana at their annual Congress in 2006. Accra: Ransford Agyei, Deputy Director-General.
3. Azubuike, J.U.B (2002). Auditing: A Nigeria Perspective Mantle Publisher Owerri, pp.3-25.
4. Cai C. (1997) "On the functions and objectives of internal audit and their underlying conditions" *Managerial Auditing Journal*, Vol.12 pp.247-250.
5. Deloitte and Touche Enterprise Risk Services and Institute of Internal Auditors – UK and Ireland (2004). *The Value Agenda*. Available at www.iaa.org.uk.
6. Dittenhofer, M. (2001). Internal audit effectiveness: An expansion of present methods. *Managerial Auditing Journal*, 16(8), 443-450.
7. Dandago, K. I. (1999). *Auditing in Nigeria: A Comprehensive Text*. 1st Edition, Kano: Adamu Joji Publishers.
8. Eden, D. and Moriah, L. (1996). 'Impact of Internal Auditing on Branch Bank Performance: A Field Experiment,' *Organizational Behavior and Human Decision Performance*, 68: 262–71.
9. Ernst and Young (2006). *Trends in Australian and New Zealand internal auditing. Third annual benchmarking survey 2006*, Australia: Ernst and Young.
10. Fadzil, F.H. (2005). Internal auditing practices and internal control system.[Online].Available from: <http://www.Emerald/insight.Com.Innopac.up.ac.za/>
11. Ghana's Audit Service Act (2000) (Act 584)
12. Ghana's companies code 1963 Act 179 (Section 136:1, 2, 6 and 7)
13. Hass et al. (2006) "The Americas literature review on internal auditing" *Managerial Auditing Journal*, Vol.21 pp.835-844.
14. Holm, C. and Laursen, P.B. (2007), 'Risk and control developments in corporate governance: changing the role of the external auditor?' *Corporate Governance: An International Review*, Vol. 15, No. 2, pp. 322-333.
15. IFAC International Standard on Auditing 610, *Governance in the Public Sector: A Governing Body Perspective*, 2001
16. Internal Audit Agency Act, 2003 (Act 658) Republic of Ghana

17. Institute of Internal Auditors (IIA) (2009). International standards for the professional practice of internal auditing. Available at <http://www.theiia.org>.
18. Institute of Internal Auditors (IIA) (1999). Definition of Internal Auditing, the Institute of Internal Auditors, Altamonte Springs, FL.
19. Institute of Internal Auditors (1999). "Turnbull recognizes value of internal audit", Press Release
20. Van Gansberghe, C. N. (2003). Internal Audit Finding: its place in public finance Management., New York, 2003.
21. Van Gansberghe, C. N. (2005). Internal auditing in the public sector: A consultative forum in Nairobi, Kenya. Shores up best practices for Government audit professionals in developing nations. *Internal Auditor*, 62(4), 69-73.
22. Xiangdong, W. (1997), Development trends and future prospects of internal auditing.
23. Zeleke B. (2005). Internal Audit Function to Promote Good Governance in Ethiopian Public Sector, Ethiopia.
24. White, A.W. (1976). 'The Essentials for the Effective Internal Audit Department', *Internal Auditor*, April: 30–33.
25. Woolf E. (2003). *M and E Professional Studies* (2nd Edition) Pitman Publishing Limited London
26. www.bradford.ac.uk/management/els