

The Effectiveness of Internal Auditing in Public Institutions in Ghana

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Abstract: *Purpose-* To examine the elements that constitute effectiveness of internal auditing in public institutions in Ghana and know the ideas or knowledge other staffs have about internal auditing and ascertain their contributions towards making it effective. *Methodology-* Qualitative approach was used. *Questionnaires* were designed for both internal auditors and other staffs. 80 questionnaires were distributed in two public universities and one public hospital. *Data gathered* were analyzed using percentage. *Findings-* the study showed that management support, independence of internal auditors to operate, availability of resources and evaluation of internal auditors by other staff has a positive influence on effective internal auditing. Also, better training and good working relationship are essential for effective internal auditing.- *Research Limitations/ Implications-*The study was about three public institutions that have internal auditing department in Kumasi in Ghana, audit committee members were not included in the interviews conducted. A further study may involve more public institutions in both cities and local areas and audit committee members. Also, a further study can be on the computerization of internal auditing departments in public institutions. *Practical Implications-* The research suggest the development of software for auditing. • *Internal auditors* should be evaluated by other staff. The elements that constitute effective internal auditing should be important to management and the government. *Originality / Value-* the outcome of this study will help internal auditors, the government, management, investors, the Internal Audit Agency and the Institute of Internal Auditors.

Keywords: Internal Auditing, Internal Audit Functions, Internal Audit Agency, Public Institutions

I. INTRODUCTION

Government can be stable based on its ability to provide its members needs or services such as health, security, quality education and other developmental projects. Resources are dispensed to local districts to assure that citizens have a better life, thus effective use of it. The performance in the public sector is driven by two factors: resources and management [1]. Supervision of resources ensures that it is dispensed to districts to meet the needs of citizens. Taxpayers expect their requests to be given and taxes taken used economically for progress in the country. Resources are managed for better social amenities such as electricity, water, hospitals, schools, police stations and other projects are available in order to make life suitable. Heads of local government are to account for the resources portioned to them and proper management makes accountability simple. In the world there is an increase cry for the upgrade of public sector and this is because the fact that government is the single biggest business organization and the government's activities affect all other sectors of the economy.

The huge government activities call for the proper and improved accounting and auditing standards especially in public institutions. Ghana has 134 public service institutions and the budgets and funds of the organizations have to be managed economically and effectively.

The Public Procurement Act 2003 (Act 663), the financial Administration Regulation 2004, Financial Administration Act 2003 (Act 654) and other Acts and Regulations are available to help officers to execute their duties accordingly, which makes their job easy leading to the achievement of set goals. The public sector is always known to be deficient but not the private sector but the required resources are disbursed to the Ministries, Departments and Agencies (MDAs) and Metropolitan, Municipal and District Assemblies (MMDAs) in order to ensure quality performance to obtain its targets.

The Ghana Audit Service (GAS) and the Internal Audit Agency (IIA) were established to ensure that internal controls, financial structures, Acts, rules and regulations, policies and procedures and resources are used, followed in the realization of aims and to make sure that funds are used as budgeted efficiently.

The Audit Service Act 2000 (Act 584) and the Internal Audit Agency Act 2003 (Act 658) were enacted to ensure continuity of good governance, application of government policies, procedure, internal controls and processes, management of risk and the improvement of the economy by achieving definite objectives. This indicates that there are great expectations from auditors. Effective internal auditing promotes sustainability of the economy, easy accountability and assures taxpayers of great public services. Effective internal auditing leads to the realization of set target.

Misuse of funds, conflict of interest and fraud is the subject for discussion in Ghana because leaders of various sections and agencies can't give an account of the resources allotted to their office and various corruption scandals. Load shedding of electricity, unemployment, high tariffs, unpaid debts and high price of petroleum indicates the economy is in a bad state. An example is, with the African Eurobond debt of \$35 billion Ghana owes above 10%, (New statesman, 30th May, 2016) also "Fraud at Komfo Anokye Teaching Hospital (KATH) as patients are made to escape paying bills, July 4th, 2016. Due to this, taxpayers are demanding accountability of funds and are doubting the functions of internal auditors. Many people are asking whether there are qualified internal auditors, whether the required funds to help them to execute their duties are readily accessible and also whether the suggestions in their reports are applied, whether the laws for offenders are working effective,

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The Effectiveness of Internal Auditing in Public Institutions in Ghana

Whether internal auditors being employees in the public sector are not bias or independent when executing their functions and if the fine for criminals should be increased. The research will delve into elements that constitute effectiveness in internal auditing in public institutions. The factors include accessibility of funds, internal controls, management assistance, internal audit functions, evaluation of the activities of internal auditors and implementation of audit reports.

II. LITERATURE REVIEW

Many have done research on internal auditing in the public sector but my research is on ascertaining the factors that creates effective internal auditing in public institutions to promote good economy and eradicate fraud, risk management, to promote the growth of the public sector.

A. Definition of Internal Auditing

Many people have written the definition of internal auditing.

It is an autonomous analysis of, and the explanation of an opinion on financial statements of an organization by a chosen auditor, as per his conditions of his contract and the compliance with statutory rules and experienced requirements. [2]

It is an independent appraisal function within an organization for the review of system of control and the quality of performance as a service to the organization. [3]

It is a systematic investigation and appraisal of transactions procedures, operations and result in financial statements. [4]

Internal auditing is an independent, objective assurance and consulting services designed to add value to the operations of an organization.” 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. [5]

This indicates that internal auditing is executed to reveal high risk areas, loop holes, evaluate internal control system, examine policies, procedures and evaluate the operations in the various public institutions. All these can be achieved efficiently if the needed support from top officers is readily assessable, also the assistance of the audit client. Internal auditing relieves the workload of external auditors, rescue the organization from misappropriation of funds, assists management to make productive decisions and ensures that high risk areas are given more time to prevent unforeseen incidents and that internal controls are working well. The above causes internal auditing to be very effective.

B. Objectives of Internal Auditing

The objectives of internal auditing are as follows:

Assist top officers to examine internal controls, manage risk and governance processes. Ensure policies, procedures, rules, regulations and Acts are working for better operations. Aid management to achieve objectives.

The main objective of internal auditing is “to help management in the effective execution of their duties by furnishing them with analysis, appraisal, recommendations and pertinent comments concerning the activities reviewed”.

[6] The aim of internal auditor is to guard management against errors of principle and disregard of responsibilities. [7] This means internal auditors are not the police as others perceive them but rather are to make sure that the objectives, ideas of public institutions are economically, efficiently, effectively attained by enlightening management to take right decisions , adopt good policies and procedures and accurate internal controls.

C. Internal Auditing Functions

Stakeholders have different expectations from internal auditors.

Internal auditing assures that operations are focused on the attainment of objectives public institution and also safeguarding public properties.

Internal auditors assure that financial, operational data are documented for future referral and simple accountability.

They assure that management or council members make better choices to increase the survival rate of public institutions in order to render quality services to citizens. They aid management to identify risky areas and provide control steps to help those areas.

They assure that resources are distributed to the appropriate sector and used as budgeted efficiently and effectively in the various government institutions.

This aids internal auditors to express a true and fair view of how things really are. Internal auditors should be honest in performing their responsibilities and have full control to operate.

Internal auditing is important in many of today’s worldwide organizations by aiding management in examining controls and performance, rendering an important aspect of worldwide control. [8] As a result, management and internal auditors have common objective which is to ensure that the institution delivers at its best efficiently, effectively by achieving objectives in general.

D. Challenges in Internal Auditing

The obstruction of top officers in the functions of internal auditors, top officers sometimes think the laws are not meant for them and dislike their offices being audited.

Restricted access to data and documents, different aims from stakeholders shows that internal auditors can’t satisfy every stakeholder.

Non-implementation of suggestions in reports, internal auditors spends a lot of time to audit various sections and make suggestions to solve issues in the departments audited. Suggestions that are not implemented indicate that findings are left unresolved.

Inadequate management assistance is the prime cause for the ineffectiveness of the internal audit function.[9]

Requiring the internal audit function to report directly to the audit committee may create threats to internal auditor’s independence and objectivity because of concerns about career and reputation, overreaction of audit committee members, retaliation by management and the requirement that solutions be offered when fraud risks are reported. [10]



The objective of the study is to assess and evaluate the effectiveness of internal audit in management and accountability in public institutions. Considering the above literature the following hypotheses were formulated. H1 Management support and independence to operate has an influence on effective internal auditing. H2 Availability of resources, better training, internal controls and good working relationship has an influence on effective internal auditing.

III. DATA ANALYSIS

A. Methodology

Interview

Face to face interview is chosen because it gives the researcher the opportunity to make observations and seek further explanations. Internal auditors, management members and other staff members will be interviewed. Information on working relationship between internal auditors, management and other staff members and information on their good and bad experiences was gathered.

Questionnaire

Many questions or information cannot be asked or gathered during interview because of time constraints. Questionnaire is chosen to give respondents ample time to answer questions pertaining to the research to help in the achievement of set objectives. It was distributed to internal auditors, management members and other staff members. To know the current situation of internal auditing in public institutions and also challenges internal auditors face as well as problems other staff members and management have about internal auditors.

Survey research design was used to gather information. Gathering of information or data for this research is very important; the primary data was obtained through the administering of questionnaire, conducting of interviews and observation on the field. Secondary data was gathered by reviewing documents such as internal controls, policies, procedures, laws, rules, regulations and Acts.

Three (3) public institutions from the health and education sectors in Kumasi in the Ashanti region of Ghana was used for this research (Kumasi Technical University, Komfo Anokye Teaching Hospital and University of Education, Winneba, Kumasi Campus). The questionnaire is designed in two categories, one for internal auditors and another for other staff members including management members. This was done in order to get the views and thoughts of internal auditors and other staff members to help in answering the research questions.

A total of 100 questionnaires were distributed. It has three sections, the first is about whether internal audit departments are well established, it looks at the availability of resources, the condition of service of internal auditors, the existence of audit documents for execution of their duties, the training of internal auditors.

The second is on management support, that is, management giving internal auditors the independence to operate, implementation of internal audit recommendations, involving of internal audit in decision making and the third is on policies, laws and regulations.

The last section is about internal controls, policies, procedures, rules, regulations, code of conduct and laws in the public institutions.

The data gathered from the questionnaires and interviews were analyzed with their significance to the hypothesis. Simple percentages were used for the analysis.

Hypothesis

The following hypotheses were formulated to help obtain the objectives of the research.

H1 Management support and independence of internal auditors to operate has an influence on effective internal auditing.

H2 Availability of resources, better training, internal controls and good working relationship are essential to ensure effective internal auditing.

Questionnaire

A total of 100 questionnaires were distributed and 80 questionnaires were received representing 80%, deemed fit for the research. The 80 respondents had 30 being internal auditors representing 37% and 50 being other staff members representing 63%.

Working Experience

16 internal auditors had worked from 1-10 years representing 53.3% and 14 had worked from 11-20 years representing 46.7% indicating they have the required knowledge to execute their duties diligently and also the information gathered is accurate.

Internal Audit Agency Membership

According to the data gathered out of the 30 respondents that are internal auditors, 18 respondents representing 60% are not registered members and 12 respondents representing 40% are registered members of the Internal Audit Agency of Ghana,. This indicates not much internal auditors are registered members. This is an agency solely for the welfare of internal auditors and they must be part to have access to training programmes and other necessary documents.

Management Support

Management Follow Policies

80% of respondents said management follows policies, procedures and internal controls and 20% said management does not.

Implementation of Recommendations

56.7% respondents said management does not implement recommendations made in internal audit reports, they do not write to explain either and 43.3% said management implement the recommendations.

Interviews conducted by the researcher revealed that management support is an important factor in the activities of internal auditors in the public institutions. Management members play vital role in public institutions, making decisions, establishing policies and procedures, internal control, governance process and they control the entire operations to ensure that activities done are channeled to the achievement of set objectives. Management supports internal auditors by seeking advice from internal auditors, following policies, procedures, rules and regulations.

Independence of Internal Auditors



The Effectiveness of Internal Auditing in Public Institutions in Ghana

53% respondents said the rate of independence of internal auditors is strong, 30% respondents said the rate is very strong and 17% respondents said the rate is weak. This indicates that internal auditors have the independence to execute their duties.

According to internal auditors that were interviewed, effective internal auditing involves the independence of internal auditors to operate. They need to have absolute independence to audit any department or section of the institution in order to improve the various sections, also restriction prevents internal auditor to detect or prevent fraudulent actions in the restricted sections or departments.

Availability of Resources

76.7% respondents said resources are available and 23.3% respondents said resources are not available. This is good.

Internal Auditing Seminars

70% respondents said internal auditors attend internal auditing seminars and 30% respondents said otherwise which is good.

Condition of Service

67% respondents said the state of condition of service for internal auditors is good, 20% said its bad, 7% said its worse and 6% respondents said its better. This indicates the condition is good.

Relationship between Management and Internal Auditors 97% said there is a cordial relationship between management and internal auditors and 3% said otherwise. This indicates that there is good working relationship.

The organization of internal audit seminars is necessary because it gives internal auditors the opportunity to explain their purpose, activities in order for other staff members to have a deep understanding of what internal auditing is all about. This will change the mind set of many that thinks internal auditors are intruders, police and they are always looking for people to blame for issues at the workplace. Other staff members will cooperate by making the necessary documents available, not hindering information and internal auditing will be simple, easy and beneficial to the institution.

A healthy relationship at work is very vital because it brings about great team work and better co-operation with each other thus creating good working atmosphere, also the resources needed when available helps internal auditors to execute their duties on time.

Internal auditors are honest and loyal but good working conditions also boast them to work harder to achieve better results thereby ensuring that the set objectives of the institution are achieved efficiently.

Internal Auditors Evaluated By External Auditors

63% of respondents indicated that internal auditors are not evaluated by external auditors and 37% respondents said that is not the case.

64% respondents said internal auditors are not assessed by other staff members and 36% said they are assessed by other staff members.

IV. RECOMMENDATION AND CONCLUSION

The study indicates effective internal auditing is very important aspect in the growth of public institutions and Ghana as a whole. The study outlines that internal auditing

should be modernized to help in risk management and governance processes because we are in a technological and dynamic world. Internal audit software should be developed to help in the execution of internal audit functions.

Internal auditors should be trained to use the various software used in the numerous department in order to aid in auditing such departments.

The establishment of suggestion box is also necessary because it will help other staff members to express their opinion about issues in the institution and also report fraudulent actions to internal auditors.

Internal auditors should ensure to register with the Internal Audit Agency (IAA) and also Institute of Internal Auditors (IIA) to have full access to training and necessary documents to increase their knowledge and skills.

Internal auditors should be evaluated by other staff, this can be in a questionnaire form designed by the planning department or the quality assurance department. This will help internal auditors to know their strength and weakness to improve their strategy or approach.

Internal auditors should organize internal auditing workshop for other staff members so that they can be understood better for a great working relationship and better results.

Internal auditors should not intimidate audit clients, discriminate against common staff and favour principal officers, each person is not above the law so equal treatment should be ensured.

Internal auditors should discuss findings with audit clients before final audit report is written.

Internal auditors should be proactive in executing their duties.

Staff members should help internal auditors by reporting criminal or fraudulent actions, follow rules, regulations, policies and procedures. Officers from the Internal Audit Agency (IAA) should visit internal audit departments in the public institutions to know their current status and to help in solving challenges they have.

The above recommendations will enhance the effectiveness of internal auditing in public institutions in Ghana and worldwide.

Limitations

The study was about three public institutions that have internal auditing department in one of the big cities in Ghana, audit committee members were not included in the interviews conducted. A further study may involve more public institutions in both cities and local areas. Also, a further study can be on the computerization of internal auditing departments in public institutions.

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I certify that the research is my work and all data from others have been cited and referenced accordingly. I thank the entire staff at the Kumasi Technical University, Kumasi, University of Education, Winneba, Kumasi Campus and Komfo Anokye Teaching Hospital for helping me with the research.



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