

UNIVERSITY FOR DEVELOPMENT STUDIES, TAMALE

ASSESSMENT OF THE EFFECTIVENESS OF THE INTERNAL AUDIT SYSTEM IN  
HOSPITALS: THE CASE OF ST. JOSEPH HOSPITAL IN THE UPPER WEST REGION OF  
GHANA

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GHANA

BY

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## DECLARATION

### Candidate's declaration

I hereby declare that this dissertation is the result of my own original research and that no part of it has been presented for another degree in this University or elsewhere.

Candidates Signature.....  Date..... 

Name: Rosemary Owusu-Ansah

### Supervisors Declaration

I hereby declare that the preparation and presentation of the desecration were supervised in accordance with the guidelines on supervision of dissertations laid down by the University for Development Studies.

Supervisor's Signature:.....  Date:..... 

Name: Mr. Paul Bangniyel



## ABSTRACT

In many government establishments, internal auditing is being used as a means of ensuring effective and efficient management of resources (human, material and financial) and to better manage risk. In hospitals such as St. Joseph Hospital, internal auditing has been embraced as a means of internal control. The study assesses internal audit system at St. Joseph Hospital of the Upper West Region of Ghana. The general objective of this study is to investigate the effectiveness of the internal audit system in St. Joseph Hospital. The study adopted the qualitative approach but leaned against the quantitative approach to better understand and espouse and analyze the challenges that are likely to hinder effective internal audit system at St. Joseph Hospital. It was revealed that there is no permanent Internal Auditor at St. Joseph Hospital. The study concludes that the Internal Auditor criticizes on issues of non-compliance and makes recommendations to management. With regard to management support for internal audit effectiveness, the study asserts that even though management provided inadequate logistics, it however, created the enabling environment for the Internal Auditor to perform his duties since he is allowed access to records and information. It is further established that the under listed are among the factors militating against the effectiveness of the internal audit system at Joseph Hospital: lack of permanent internal auditor, inadequate logistics, indifferent attitude of some management staff and disregard for accounting standards and practices. It concluded that the function of the internal audit department lacks the full implementation of the audit function, policies and does not wholly comply with the function of audit department. The study concludes by recommending the establishment of an audit unit, recruitment of a permanent internal auditor, provision of adequate logistics, orientation of staff on the importance of internal audit and the application of internal auditing standards and principles in the preparation of report.





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## DEDICATION

This work is dedicated to my late father Mr. J.K. Owusu-Ansah, mother Comfort Appiagyei as well as all my sisters namely Mr. Eugene Opoku my lovely son Blessing Daniel Twum – Barimah.



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## LIST OF ACRONYMS

|          |   |  |
|----------|---|--|
| ACCA     | - | Audit and Assurance Services                         |
| AMF      | - | Financial Markets' Authority                         |
| ASAC     | - | Administrative Sciences Association of Canada        |
| CAAA-SAP | - | Canadian Academic Accounting Association             |
| CAE      | - | Chief Audit Executive                                |
| CEO      | - | Chief Executive Officer                              |
| CFO      | - | Chief Financial Officer                              |
| CG       | - | Corporate Governance                                 |
| CHPS     | - | Community Health-base Planning Services              |
| FMM      | - | Francican Missionaries of Mary congregation          |
| IA       | - | Internal Audit                                       |
| IAD      | - | Internal Audit Department                            |
| IAF      | - | Internal Audit Function                              |
| IAF      | - | Internal Audit Function                              |
| ICPAU    | - | Institute of Certified Public Accountants of Uganda, |
| IIA      | - | According to Institute of Internal Auditors          |
| IIA      | - | Institute of Internal Auditors                       |
| IIA      | - | Institute of Internal Auditors                       |
| IIA-UK   | - | Institute of Internal Auditors                       |
| ISA      | - | International Standards of Auditing                  |
| KPMG     | - | Klynveld Peat Marwick Goerdeler                      |
| MDAs     | - | Municipal and District Assemblies                    |
| MMDAs    | - | Metropolitan, Municipal and District Assemblies      |



|      |   |  |
|------|---|--|
| ROI  | - | Return on Investment                   |
| SMEs | - | Small Scale Enterprises                |
| SOX  | - | Sarbanes-Oxley Act                     |
| SPSS | - | Statistical Package for Social Science |
| VFM  | - | Value for money auditing               |



## CHAPTER ONE

### INTRODUCTION

#### 1.1 Background to the Study

Internal auditing is a management-oriented discipline that has evolved rapidly since World War II. Initially confined to financial and accounting matters, internal auditing now encompasses a wide range of operating activities and performs a correspondingly wide variety of assurance and consulting services. According to Institute of Internal Auditors (IIA), internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes (Salisu, 2007).

Internal auditing is executed by an internal auditor. He is regarded as part and parcel of the organization since his/her appointment is usually effected and influenced by the organization's management. His/her activities are defined by the recruiting organization, though there are basic issues that are expected to be addressed by him/her during the course of his/her tenure in office.

Globalization, technological advancements, heightening nature of business failures, and the increase in fraud have signaled establishments to place more emphasis on their internal control systems and internal audit functions. Consequently, the demand for internal auditors continues to grow due to the function of internal auditing as a risk evaluation and management unit.



The failures and collapse of high profit institutions around the world such as Enron, Parmalat, WorldCom, Barings Bank to mention just a few have shown that no company can be too big to fail (Babalola & Ajewole, 2010). He identified a common trend in all these failures to include poor corporate governance culture, exemplified in poor management, fraud and insider abuse by management and board members, poor asset and liability management, poor regulations and supervision among others.

Poor corporate governance has been identified as one of the major factors among others that cause financial sector distress in the world. Most Ghanaian institutions have also been inundated with weak internal controls thus constituting serious dangers to the existence and smooth running of these firms. It is also a known fact that the external auditors who are supposed to generate a true and fair report about their clients have failed to live up to expectations. A closer scrutiny of the incidences that led to the total collapse of these giant United States of American corporate bodies certainly would have its root in poor internal controls and culminating in compromised external auditing.

One of the important reasons of financial fraud is the failure of internal control and the lack of related information disclosure. Effective internal control system can ensure the truthfulness, relevance and reliability of financial information. Information disclosure can contribute to the constant improvement of internal control, offering data for decision- making to information users. The establishment and effective implementation of internal control system can assure healthy continuity of corporate bodies. The quality of internal control disclosure reflects the





situation of the system, which is vital to regulators and investors. Information disclosure quality of a listed company is subjected to its corporate governance.

In business organizations, the increasing tendency has been to use the basic financial statement as a measure of performance. However, auditors of public sector organizations have always been concerned with more than merely attesting to financial statement. This is because of the unique nature of such organizations.

Consequently, there are many ways that public sector organizations are held accountable and for many different aspects of their performance. Generally, however, they usually prepare and present financial reports. These reports provide a picture of the resource entrusted, how the resources were employed during a given period usually one year, and in what form the resources are now held. The emphasis, therefore, has still been on producing verifiable statement of income and expenditure balance sheet and flow of funds.

It is expected that the reports of public organizations not only reveal the resources entrusted and their use but more importantly, the degree of efficiency and effectiveness achieved in the employment of the resources.

## **1.2 Statement of the Problem**

In the past, internal auditing in public organizations served as simple administrative procedure comprising mainly of checking accuracy of transactions, pre-payment verification and control, counting of assets and reporting on past events to various types of management. In recent times





however, a combination of forces has led to a quiet revolution in the profession. Governments are moving toward higher levels of transparency and hence Public institutions must demonstrate accountability in the use of public funds and efficiency in the delivery of services (Nteziryayo, 2014).

Internal audit performs various functions including preventing and detecting fraud, testing internal control, monitoring compliance with organizational policy and government regulations. In spite of the likely effect, inefficient and ineffective internal auditing may have on the financial resource of an organization, there seems to be little research on the assessment of the situation on organizations. Studies conducted by Myers and Ziegenfuss (2006) concentrated on fraud in financial reporting and organizational control systems respectively, with little regard to internal auditing. Their studies further failed to evaluate the effectiveness of internal auditing in context of health institutions. Besides their studies cannot be generalized to cover all public institutions. The situation therefore establishes a gap which needs to be investigated.

Furthermore, information available points out that external auditors have raised several queries about the poor state of financial discipline at the hospital and have therefore strongly recommended that the establishment of measures to address them. Based on this, the study seeks to examine the internal audit practices of St. Joseph Hospital in the Upper West Region of Ghana.



### **1.3. RESEARCH QUESTIONS**

#### **1.3.1 Main Research Question**

How effective is the internal audit system in Hospitals

#### **1.3.2 Specific Research Questions**

The specific research questions which the study seeks to answer are;

1. What extent has the internal audit system been complied with in hospitals?
2. What contributions does management offer to enhance internal audit effectiveness in hospitals
3. What are the challenges of the internal audit unit in hospitals?

### **1.4 RESEARCH OBJECTIVES**

#### **1.4.1 Main Objective of the Study**

The general objective of this study is to investigate the effectiveness of the internal audit system in St. Joseph Hospital.

#### **1.4.2 Specific Objectives of the Study**

Specifically, the study seeks to:

1. Examine the extent to which the internal audit system has been complied with in hospitals.
2. Examine the contributions of management support for internal audit effectiveness at hospitals
3. Identify and evaluate the challenges of the internal audit system in hospitals.



### **1.3 Significance of the Study**

A company's internal audit department has a key role in the performance of management. By this study the Management of the hospital would be able to know how to manage the risks that are significant to the fulfillment of its business objectives. A sound system of internal audit department control would contribute to safeguarding the shareholders' investment and the company's assets since St. Joseph Hospital has problems with its internal audit governance.

The study would also aid in the identification of effective financial controls; thus the maintenance of proper accounting records keeping and financial reporting in these organizations.

Finally, this study would serve as reference material for future researchers.

### **1.4 Organization of the Study**

The study is organized into five Chapters. Chapter one covers the background of the study, statement of problem, the research objectives and questions, the significance of the study. Chapter two consists of the review of relevant literature. Chapter three discusses the approach and methodology of the research. The empirical results obtained from the study is presented and discussed in Chapter four. Chapter five covers the summary, conclusion and recommendations of the study and suggested areas for future research and policy formulations.



## CHAPTER TWO

### LITERATURE REVIEW

#### 2.1 Introduction

This chapter reviews a range of literature and concepts relevant to the study. The literature review is centered on the core aspects of internal auditing. These include; the theoretical framework of the study, functions of internal audit, objectives of internal audit, the role of internal auditors, means of achieving internal control, effectiveness of internal auditing, challenges of internal auditing.

#### 2.2 Theoretical Framework of the Study

Academics have come out with various definitions for what a theory is. For example, Twumasi (2001:10) defines a theory as “a coherent group of general propositions used to explain phenomenon”. Similarly, Kerlinger (1979 cited in Creswell, 2009:51) defines a theory as “a set of interrelated constructs (variables), definitions and propositions that presents a systematic view of phenomenon by specifying relations among variables, with the purpose of explaining natural phenomena”. In the view of Twumasi (2001), a social researcher needs a theory that will guide him in the construction of his research model and aid his analysis.

Thus, in this research, a relevant theory on internal control system has been chosen and used as the guiding framework for assessing internal control systems in hospitals. The relevant theory discussed in this study is the systems theory approach to the internal audit. The systems theory was propounded by Michael B. Adams in 1993. This theory throws light on internal control and how internal auditing can fit into a systems theory framework, It describes and explains the





internal audit function inside organizations and offers possibilities particularly, “hard” and “soft” modelling for representing internal control auditing function in organizations (Adams, 1993).

In the view of Adam (1993), the “hard” systems modelling (HSM) approach to organizational system theory is related to the scientific management philosophy of F.W. Taylor. He asserts that in HSM, “professional experts” or “technocrats” systematically gather and interpret environmental and organizational information to identify problems or risks, to formulate goals and objectives to be achieved to ascertain constraints and options and, finally, to select and apply a rational plan of action to achieve the desired outcome. After this process, technical control systems are then applied to monitor conformance to plan and to ensure that objectives are indeed accomplished. HSM is primarily a task focused approach which lays emphasis on the fact that activities should only be performed if they help to achieve objectives in an economical, efficient and effective manner. “Hard” systems tend to dominate in organizations with an authoritarian/ task culture” and where professional expertise and specialist skills are highly valued, for example established hierarchically structured bureaucracies (Adam, 1993).

This system is common in large public bureaucracies such as local government establishments of which hospitals are inclusive. The HSM perspective is that internal controls are technical preventive/detective mechanism which exists to ensure conformity to plan and direct management to achieve objectives. In the view of Adams (1993) therefore, these processes are the dominant management activities in many bureaucratic forms of organizations, in both public and private sectors. The dominant features of an internal audit department operating





under an HSM scenario may include the regular use of standard audit programmes; an audit approach which emphasizes the identification of errors and fraud; and the adoption by audit of a financial, “inspectorate” role rather than operational, “problem-solving” approach

Again the HSM postulates that functions/systems will tend to adapt themselves to become specialist in nature to reflect and maintain the power of “professionals” (Adam, 1993). The health sector by its arrangement in Ghana can perfectly utilize these postulations to ensure effective and efficient internal control.

The “soft” systems modeling in contrast as posited by Adam (1993), throws light on the complexity, uncertainty and irrationality which is frequently associated with “human activity systems”? In his view, the SSM perspective deals with the accommodation of human needs and interest is more critical to the operational success of systems than ensuring the performance of technical activities. Thus, the principle governing SSM is that decision makers should consult with people and actively seek to accommodate a variety of views and perceptions about problems and objectives. This will enable “the richest possible picture” derived from the consultation process; optimal causes of action can then be selected, based on mutual consensus and compromise. Although all organizations will contain elements of both Hard and Soft systems, SSM tends to predominate in “loose” organizations such as small family businesses.

Juxtaposing the HSM and SSM, this study takes the hybrid approach by adopting the two approaches (“Hard and Soft” Systems Modeling) as an effective internal system especially in a hospital like the St, Joseph Hospital which is partly owned by government and partly by the



Catholic Church. A combination of the HSM and SSM Modeling will therefore enhance effective and efficient internal control.

### 2.3 Concept of Auditing

Auditing is the process of reviewing the financial information prepared by the management of a company (the financial statements and the footnotes) to determine that it conforms to a particular standard (the applicable financial reporting framework). The person who conducts the assessment follows a set of standards (generally accepted auditing standards). The person completing the assessment is not an employee of the company but works for an accounting firm that is associated with the company only by being hired to perform an audit (a firm that is independent from the company) (Salisu, 2007).

The individual doing the assessment is hired to verify the fairness and completeness of the decisions recorded by the firm so that outsiders have accurate information to make decisions. The outsiders may be bankers, current or potential stockholders, or regulatory bodies (outsiders to company management). The accountants making the assessment provide a valuable, indeed, a crucial, service. Without such an assessment, outsiders would be forced to rely solely on the information the firm provide. Even without deliberately misleading outsiders, the firm's executives are likely to be more optimistic about the firm's status than an outsider might be.

It is imperative to note that no individual or institution will lend money to a company or buy its stock based solely on management's optimistic picture of the firm's performance. Besides, no individual or institution will trust financial reports that use an "optimistic viewpoint" to report all information without any independent checks or review.



### 2.3.1 History and Meaning of Internal Auditing

According to Miller (2014), the methods of auditing became widely used during the Industrial Revolution. In this writer's view auditing was needed during this time, as the railroads were being built, to help provide some organized controls around costs, production, and operating ratios. It was also one of the events in history that led to the actual profession of accounting. Auditing did not become a requirement in the United States until after the stock market crash of 1929. Many large and small investors and also banks lost a great sum of money during the crash causing the reliability and confidence in the market to significantly decrease. Before the crash, investors relied more upon unaudited financial reports for corporations to enter and participate in the stock market Miller, (2014).

In recent times, financial reports are relied on but financial statements are more reliable now since there are outside sources checking the accuracy of the statements. Without a third party to evaluate statements, corporations could easily create their financial statements to appear better than how the corporation was actually doing. Financial disclosures and preventing fraud in the sale of stock was previously never seriously looked considered by any bodies or agencies. During this time, there was talk of proposals that the government would require disclosures and preventions, but neither materialized until after the crash (Miller, 2014).

Congress passed the Securities and Exchange Act in 1933 and 1934 in order to help bring back the confidence in the stock market, which ended up creating the Securities and Exchange Commission, popularly known as the SEC. There are two main requirements that sum up the purposes of the Securities and Exchange Act.





Miller, (2014) asserted that the first requirement was that companies, who publicly offered securities in exchange for investment dollars, must be honest and disclose to the public about the success and purpose of their business. They also have to be honest about the securities they are offering and the risk involved to the investors. This leads to the second requirement that the people who sell or trade the securities have to put the investors' interests first.

Also, the Securities and Exchange acts of 1933 and 1934 require that financial statements must be evaluated by an independent public accountant, as a part of registering statements to issue new securities and also for reports.

The SEC has many responsibilities including the oversight of the Public Company Accounting Oversight Board (PCAOB), which oversees auditors, and the oversight of The Financial Accounting Standards Board (FASB) which has been designated as the authority creating accounting standards also known as the general accepted accounting principles (GAAP). The SEC is also required to ensure that publicly traded companies submit periodic financial statements. Any major change proposed by The Financial Accounting Standards Board seriously considers the opinion of the SEC before making any changes.

In 1941, the Institute of Internal Auditing (IIA) was established by Victor Brink, John Thurston, and Robert Milne. Brink was the author of the first book on internal auditing Miller, (2014). In this writer's view the IIA was created as a global organization of internal auditors to establish a recognizable leader of authority and a primary educator for internal auditors. At this time companies were looking for systems of control for conducting many operations in a variety of locations and also for employing numerous amounts of employees. The IIA is not



just for internal auditors but encompasses other professions including, risk management, internal control, information technology, and security. It is said that many people denote the origin of internal auditing to the establishment of the IIA.

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations (IIA, 2002). According to Antwi, (2009) internal auditing is defined by Institute of Internal Auditors in 1978 as an independent appraisal function established within an organization to examine and evaluate its activities as a service to the organization.

The modern definitions of internal audit as contained in the international standards for the professional practice of internal auditing issued in January, 2004, re-enforces the core role of internal audit as, an independent objective assurance and consulting activity designed to add value and to improve an organizations operations. Internal auditing helps and organization accomplished its objectives by bringing a systematic discipline approach to evaluate and improve the effectiveness of risk management, control, and governance process.

According to Institute of Internal Auditors (IIA), (1999) internal audit is an important part of the corporate governance structure within an organization. Corporate governance includes those oversight activities undertaken by the board of directors and audit committee to ensure the integrity of the financial reporting process.

According to Gray and Manson, (2005) internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operation. 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.

The definition of internal audit contains two fundamental roles:

- i. Assurance Services to the administration, audit committee, and management, guidance on assessing the effectiveness of corporate management, risk management, and control processes established by management, and
- ii. Consulting Services to the management on risk management and controls (The Institute of Chartered Accountants in England & Wales, 2011).

Analyzing this definition, it seems that the internal audit has evolved from a function of independent evaluation to a function of risk management, so that today it is the primary need of any company (Munro, L., Stewart, J., 2011), because it provides the creation of the added value of companies through independent, objective assurance and consulting activities (Spencer Pickett, K.H., 1997).

According to Croatian Institute of Internal Auditors (2011), by assessing the management process, internal audit provides appropriate recommendations to improve it by fulfilling the following objectives:

- i. Promoting appropriate ethical principles and values within the organization,
- ii. Ensuring effective management of performance and establishing responsibilities in the company,
- iii. Effective communication of information on risks and control to the relevant parts of the company,



- iv. Effective coordination of activities and communication of information to board members, external and internal auditors, and management.

A well-organized internal audit helps management to implement strategy and achieve mission and corporate objectives by providing a systematic and disciplined approach to evaluation and improvement of the efficiency, effectiveness, economy, and equity of company business (Spencer Pickett, K. H., 2005).

### **2.3.2 The Scope of Internal Audit**

In the modern business environment where the only constant is change, the area of internal audit activity cannot be limited to accounting and finance. As the volume of a business develops to a level that includes analysis of management work it becomes inevitable for the area of internal audit activities to extend to other functions (commercial, technical, production) within the company. In this way internal auditor, besides ensuring that the information contained in the books accurately reflects the facts, also evaluate policy, procedures, guidelines, quality of management, effectiveness of methods, and other functions.

In order to achieve a predetermined area of activity, internal audit examines and evaluates (Chambers, A., D., Selim, G., M., Vinten, G., 1995): comprehensiveness and applicability of organizational, managerial, service, accounting, financial, commercial, marketing and other internal operational controls; efficiency and effectiveness of internal control system; Level of compliance of all internal controls with the business strategy of the company set up by management, the adequacy and effectiveness of internal control systems and policy system of



qualities that belongs to the accounting internal control; prevention of error and illegal activities and performance of the individual segments in the company and proposed actions for improvement.

It is necessary to make a detailed plan for the implementation and enforcement of these internal audit activities. Internal audit planning involves establishing goals, activity schedule, staff and budget planning, as well as reporting on activities; that is to say, work results (Moeller, R., 2009). According to international standards of internal audit, internal audit planning should be based on risk so that the internal audit plan is aligned with corporate objectives. The plan should include a review of the major processes of risk management carried out in the company, as well as the choice of key risks determined in these processes (Kagermann, Kinney, Kuting, Weber, 2008). The audit plan should also consider those activities most affected by recent or expected changes. The proposed plan should be flexible in order to make corrections during the year, which result from the changed management strategy, revised expectations of achieving the company objectives, external conditions, and the like (Tušek, Pokrovac, 2007).

The advantage of internal audit, organized this way, is reflected in its ability to monitor the system, process, or operations, ignoring the boundaries between parts of the company which are often a limitation, in terms of scope of work, of other bodies involved in the analysis.

### **2.3.3 The Concept of Internal Control System**

According to Millichamp (2002), Internal Control System is defined as the whole system of controls, financial and otherwise, established by the management in order to carry on the





business of safeguarding the assets and secure as far as possible the completeness and accuracy of the records. He further analyzed the definition as follows;

- ✚ The whole system: internal control can be seen as a whole or single system.
- ✚ Financial and otherwise: the distinction is not important. Perhaps the financial would include the use of control accounts and otherwise may include physical access restrictions to computer terminals.
- ✚ Established by Management: internal controls are established by management, either through consultant (external) or internal through internal audit.
- ✚ Ensure Adherence to Management Policies: management has express policies such as budget and the adherence of budget can be achieved through the procedures such as variance analysis.
- ✚ Safeguard Assets: allowing assets to be stolen or broken is unacceptable and procedures are always put in place to safeguard assets.
- ✚ Secure completeness: to check that transactions are duly recorded, checking that all goods leaving the factory must have a delivery not attached to it.

Besides, DiNapoli, (2016) views internal control as the integration of the activities, plans, attitudes, policies, and efforts of the people of an organization working together to provide reasonable assurance that the organization will achieve its objectives and mission. All the above definitions of internal control systems have identified the main objectives of internal controls to be the assurance that organizational resources will be put to economic, efficient and effective use in order to achieve the objectives for which the organization was set up.

The term internal control encompasses all the methods, procedures and arrangements adopted within an organization to ensure as far as possible the safeguarding of assets, the completeness,





accuracy and liability of the accounting records and the promotion of operational efficiency and adherence to management policies (Okai, 1996). However, in the context of this project work internal control shall be defined as recommended by COSO that it is a process affected by an entity's board of directors, management and other personal, designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

#### **2.3.4 Audit Procedures & Techniques for an Internal Audit**

Lohrey (n.d) opined that a semi-annual or annual internal audit is a common method used to assess the effectiveness of a business's internal control system. Unlike an external audit, which focuses on determining whether financial statements conform to generally accepted accounting principles, an internal audit focuses on uncovering internal control weaknesses and evidence of fraud, waste or abuse. Internal audit procedures and techniques are essential to effective risk-management implementation.

The main objective of an internal audit is to assess and, when necessary, improve the effectiveness of internal business controls, risk-management plans and overall business processes. Audit procedures typically start by assessing current processes and procedures. Auditors then analyze and compare results against internal control objectives to determine whether audit results comply with internal policies and procedures as well as federal and state rules and regulations. As a final step, auditors compile an audit report to present to the business owned (Lohrey, n.d).

Assessment techniques are designed to ensure internal auditors fully understand internal control procedures and determine whether employees are complying with internal control directives.



Auditors try to avoid disrupting the daily workflow by starting the internal audit process using indirect assessment technique. These include reviewing existing documentation such as flowcharts, manuals and departmental control policies. Creating audit trails that trace specific processes from start to finish are another common assessment technique. Techniques in the second phase, including one-on-one interviews and process observations, are techniques internal auditors use if audit trails or document reviews don't fully answer auditors questions.

In internal auditing, it is often important to analyze the techniques and procedures that will aid the achievement of stated objectives. Internal audit analysis techniques include substantive procedures that are designed to determine whether work products contain data entry errors or whether financial statements contain misstatements. Analysis techniques can be used to test random data or target specific data if an internal auditor feels an internal control process is at risk. Substantive procedures include, but aren't limited to, transaction matching, a physical inventory count, audit trail calculations and recalculating already-reconciled financial statements such as a monthly bank reconciliation (Lohrey, n.d).

A final internal audit report marks the end of the internal auditing process. Although reporting always includes a formal report, it can also include a preliminary or memo-style interim report. An interim report generally includes sensitive or significant results the auditor feels are necessary to share immediately with the business owner. A final report is significantly more formal and includes a summary of the procedures and techniques used in completing the audit, a description of audit findings and suggestions for changes or improvements to internal controls and control procedures.



In the view of Lohrey, (n.d.) the internal audit process encompasses: risk based audit plan; the planning phase; fieldwork phase; reporting phase and follow up phase.

#### **i. Risk Based Audit Plan**

The internal audit process begins with the Risk Based Audit Plan, which is updated annually and approved by the Audit Committee of the Board of Governors. Once approved, the Plan becomes a guideline for conducting audits in the coming year. In addition to the audits performed under the Plan, Internal Audit also conducts special audits and consulting work on demand.

#### **ii. Planning Phase**

In the planning phase, the audit staff reviews any past audit work, looks over literature on the area being reviewed, and makes a preliminary review of the unit budgeted and actual revenues and expenses. The auditors also formulate the audit scope and objectives on which they base the fieldwork phase. The planning phase also includes an introductory meeting to discuss objectives, timelines, and other important information that can ease the internal audit process. At this time, the audit staff may request few pieces of information, such as an organization chart, a contact list and literature describing the unit's procedures, if available.

#### **iii. Fieldwork Phase**

In the fieldwork phase, typically the lengthiest part of the audit, the audit staff gathers information about the auditee's operations, gains an understanding of the unit's functions, and identifies both strengths and weaknesses. This work includes reviewing financial activity,





administrative and business procedures, overall unit functions, and other activities specific to each section in the unit. The audit staff interviews key personnel, observes unit procedures, and periodically reviews the audit progress with the unit's heads and personnel. Ultimately, this phase allows the audit staff to identify areas of risk and concern in the unit's internal controls and procedures, all of which are discussed with the auditee before or at the conclusion of the fieldwork.

#### **iv. Reporting Phase**

In this phase, all fieldwork results are compiled, presented and discussed with the client. The client must provide action plans with timeframes that address all recommendations. A final summary report then goes to Senior Management and the Audit Committee for review.

#### **v. Follow-up Phase**

Based on timeframes in the action plans, a follow-up is performed to ensure that the required measures have indeed been implemented.

### **2.3.5 Pre-Audit and Post Audit**

For internal audit to be effective to ensure efficient internal control, risk management and good governance processes pre-auditing and post auditing are very crucial. In the view of Barugahare (2011), pre-auditing is an examination of documents supporting a transaction or a series of transactions before they are paid for and recorded.

The Internal Audit Department of Kwame Nkrumah University of Science and Technology (2015) views pre - audit is an audit approach where payment vouchers (P.V) are reviewed by





audit staff before final payment is made. The review takes the form of re-computing the figures on the P.V, checking supporting documents and also checking whether the necessary authorization or control procedures have been followed before payments are made. In their view, this type of audit used to feature more in the work of internal auditors in the past. Currently, risk management is the order of the day. However, some Senior Management staff still believe that pre-audit should be conducted by internal audit staff instead of accounts supervisors. The rational for pre-audit often includes; rising incidents of illegal, irregular, wasteful and anonymous disbursements of public funds and marked inadequacies in internal controls (Barugahare, 2011).

Post Audit on the other hand refers to the review of documents or a series of transactions after the transactions has been recorded or consummated Barugahare 2011). The Internal Audit Department of Kwame Nkrumah University of Science and Technology (2015), however looks at post – audit as an audit approach where supporting documents are reviewed weeks / months after the transactions have taken place. During post audit the emphasis of the review is on control weakness and how it can be improved to prevent future breach of controls. In the view of Barughare, (2011), the rational for post –audit is to among other things make it possible to assess the organization’s resources and ensure that all resources (human, material and financial) are utilized appropriately so that the best possible results are achieved; be able to produce meaningful reports for management; be able to ascertain reliability and sustainability of the information systems and be able to inform management of any irregularity or anomaly revealed and to recommend appropriate measures for their elimination.



In the light of forgoing, it is crucial for entities such as St. Joseph Hospital to consider pre-audit and post-audit seriously if the hospital is to be effectively managed to achieve results

### 2.3.6 Qualities of internal auditors

According to Amato (2013) the role of the internal auditor shifts through regulatory changes in a more volatile economy, so, too, does the skills to do the job well is required. The skills shift is demonstrated by what companies expect of the internal audit function. According to him technical skills as outlined below, are prerequisite, but those skills alone are not enough as the job's scope broadens.

1. **Integrity:** Integrity is important in any business setting and vital in internal audit. In the report internal auditors need to be trustworthy, have confidence and resilience when faced with complex problems.
2. **Relationship building:** Credibility among each other must be built over time. They are supposed to know each other right before the audit engagement. Trust and collaboration are more likely to build between people who know each other very well.
3. **Partnering:** The ability to partner enables internal auditors to execute effectively, balancing a customer service orientation with the ability to meet regulatory requirements.
4. **Communication:** Concise, compelling reports are part of this skill, as well as the ability to listen and to know the best format in which to present information.



5. **Teamwork:** Working well with others is required in a collaborative environment. “I don’t want someone here if they cannot function on a team,” Karl Erhardt, senior vice president and general auditor at MetLife,
6. **Diversity:** Internal auditors must take on a global mind-set and be cognizant of cultural norms.
7. **Continuous learning:** Nonstop curiosity helps even the most experienced auditor’s gain new insight. As business needs shift, professionals should be proactive about developing new areas of expertise. “If you want to be successful, you have to be willing to invest in yourself,” Chambers said, these attributes mainly fall into the category of soft skills, and more and more those skills are required, not desired.
8. **Independence:** In the view of Ahmed and Taylor (2009), the duty of internal auditors clearly requires them to be independent The International Standard for the Professional Practices of Internal Auditing (ISPPIA), (2006) defines “independence” in terms of freedom from conditions that threaten objectivity and the appearance of objectivity. Independence means the freedom from dependence on or control by another person or organization. In the concept of internal auditing, independence allows internal auditors to carry out their work freely and objectively. This concept requires that internal auditors be independent of the activities they audit. Independence is achieved through organisational status and objectivity.

The ability of the internal audit function to achieve desired objectives depends largely on the independence of audit personnel. Generally, the position of the auditor within the





organizational structure of the institution, the reporting authority for audit results, and the auditor's responsibilities indicate the degree of auditor independence. The board should ensure that the audit department does not participate in activities that may compromise, or appear to compromise, its independence. These activities may include preparing reports or records, developing procedures, or performing other operational duties normally reviewed by auditors.

The auditor's independence is also determined by analysing the reporting process and verifying that management does not interfere with the findings and recommendations. For an effective program, the board should give the auditor the authority to: access all records and staff necessary to conduct the audit, and require management to respond formally, and in a timely manner, to significant adverse audit findings by taking appropriate corrective action.

Internal auditors should discuss their findings and recommendations periodically with the audit committee or board of directors. Ideally, the internal auditor should report directly to the board of directors or its audit committee regarding both audit issues and administrative matters. Alternatively, an organisation may establish a dual reporting relationship where the internal auditor reports to the audit committee or board for audit matters and to organisation executive management for administrative matters.

The objectivity and organisational status of the internal audit function are best served under such a dual arrangement if the internal auditor reports administratively to the





Chief Executive Officer (CEO), and not to the Chief Financial Officer (CFO) or a similar officer who has a direct responsibility for systems being audited. The board or its audit committee should determine the internal auditor's performance evaluations and compensation.

The ISPPIA (2006) states that "objectivity" means internal auditors are expected not to subordinate their judgment on audit matters to that of others, especially management.

Matchler (2003), states that, the independence of internal auditors are based on the criterion of objectivity, which is pivotal to the internal auditing profession and internal auditors. Vanasco, (1994) also had it that, independence is unavoidable for internal auditors and they should not be placed in a position where their independence can be questioned and feel unable to make objective professional judgments.

On the account of Sawyer and Dittenhofer (1996) internal auditors must be free to report matters they audit as they are and their reporting activities are not subject to any influences. According to Cai Chun, (1997) internal auditor must be independent of both the personnel and operational activities of an organization otherwise the integrity of the auditor's opinions, conclusions and recommendation would be suspected. So, independence is necessary for the effective achievement of the function and objective of internal audit. This independence is obtained mainly from two characteristics-organizational status and objectivity.



In summary, the personal qualities required of an internal auditor are competence, independence, integrity and ethics. The internal auditor also need to be a team player and flexible in his mind set. A recent study by Ahmad and Taylor (2009) provides evidence of the effect of a number of dimensions of role ambiguity and role conflict on internal auditors' commitment to independence. In a survey of 101 Malaysian internal auditors, they do not find a significant relation between commitment to independence and role conflict arising from performing both an advisory role and an oversight role. Further, this dimension of role conflict was found to be relatively low, suggesting that Malaysian internal auditors do not perceive a conflict between their consulting and assurance roles.

DeZoort et al. (2001) found that almost half of the 179 respondents to their survey indicated that incentive-based compensation was available to internal auditors in their organization. The most common incentive-based schemes involved bonuses based on overall company performance, internal audit function performance and individual performance. Almost one third of respondents perceived that such schemes could impair internal audit objectivity and independence. More recently, Dickens and O'Reilly (2009) likewise found that 89% of the 99 CAEs responding to their survey of US mid-sized listed companies were eligible to participate in stock-based awards and/or bonuses based on operating results, indicating a substantial participation of internal auditors in incentive-based compensation.



### 2.3.7 The Responsibilities of Internal Auditors

The responsibility of internal auditors is similar to the responsibility of consultants.

They are responsible for the technical quality of advice that they provide and are expected to make recommendations to improve the areas in which opportunities for improvement or deficiencies are identified. However, management decides whether or not to accept the advice in the light of a fuller understanding of the situation (Sobel, 2004).

It should be noted that the evaluation of inherent risks is the responsibility of management, not the internal auditor. The auditor provides assurance to management and audit committee (Zwaan, Stewart, Subramaniam, 2011) that the internal controls are effective and function as required, and also mathematically determines the importance of risk under the direction of management, while this process is still the responsibility of management. Today auditors are increasingly focusing on business processes and systems rather than transactions, as is the case with traditional auditing (Soh, Martinov-Bennie, 2011).

Bearing in mind that in addition to top management and the board of directors the users of an internal auditor's report are lower levels of management, shareholders, the chief executive and financial directors, employees, and the external auditor, the internal auditor is expected to establish a relationship with management based on the fact that internal auditors are professionals whose activities are aimed at providing useful advice to achieve planned objectives (Sarens, Abdolmohammadi, 2011). In addition, the internal auditor is expected to be constantly improving and upgrading previously acquired knowledge. This means abandoning the understanding that the internal auditor's report is the final and only product of internal





audit. Internal audit must increasingly direct its resources towards the future by providing advice in relation to anticipated future risks in certain business areas (Holt, DeZoort, 2009).

We can conclude that performance and internal audit procedures are related to the establishment of the so-called “4A”: 1) assurance, 2) providing advice, 3) proposing measures to management (action), and 4) assisting in the implementation of improvement (assurance) (Spencer, 1997 cited in Ljubisavljević, & Jovanović, (2011).

Therefore all the activities and business functions of the company are under the supervision of internal audit, and the internal auditor should gain a good understanding of corporate management and all its influences on company business, primarily those of management and control.

## **2.4 Empirical Review**

As the main aim of this study is to assess the effectiveness of internal audit at St. Joseph Hospital in the Upper West Region of Ghana, various ideas and recommendations regarding the internal audit are analyzed and presented. For easy presentation and review of relevant literature pertaining to other studies regarding the main factors that have the potential of influencing the effectiveness of internal audit in St Joseph Hospital; such as management support, organizational independence of internal auditors, challenges of internal auditors and the presence of the Internal Audit Act, 2003, (Act 658) in Ghana were reviewed.

### **2.4.1 Management Support**

There is link between internal auditors and the management of organizations in their routine activities. Internal auditors require the assistance of management in order to be more effective and to achieve the audit objectives. Management support is expressed in terms of supporting the auditing process by providing the requisite resources, providing training, introducing





auditors to new technology and procedures, budgeting funds for certification and other facilities that facilitate the internal auditor's work (Hailemariam, 2014).

Management support plays an important role in internal audit effectiveness in organizations. Mihret and Yismaw (2007) in their study of internal audit effectiveness on public sector revealed that the component of management support encompasses the response to audit finding and the commitment to strengthen internal audit which has significant impact on internal effectiveness.

Given the fact that internal audit activities are performed in dynamic management process and more supportive environment, internal auditor expects senior management to take the first steps to support the internal audit process. On this basis, Sarens and Beelde (2006) argue that the overall acceptance and appreciation of internal audit within an organization is strongly dependent upon the support they receive from management.

Management support is pertinent to internal audit activities, in that all other factors of internal audit effectiveness are driven from the support of top management, given that hiring proficient internal audit staff, developing career channels for internal audit staff, and providing organizational independence for internal audit work is the results of decisions made by top management (Cohen & Sayag, 2010). Consequently, it is the interest of management to always maintain a strong internal audit department (Yismaw, 2007).

The effective implementation of audit recommendations by management is very crucial to internal audit effectiveness (Mihret and Yismaw, 2007). Therefore, audit finding and recommendations would serve no purpose unless management is committed to implementing them.



#### **2.4.2 Organizational Independence**

There are numerous ways of conceptualizing independence. Thus the concept is subject to ambiguity and uncertainty (Wines, 2012). For the purpose of this study, independence refers to being free from any management influence as internal auditors perform audit activities and issue audit reports (Ahmad & Taylor, 2009; Belay, 2007). Independence is fundamental to the reliability of auditor's reports. Those reports would not be credible, and investors and creditors would have little confidence in them, if auditors are not independent. The assurance services provided by auditors derive their value and credibility from the fundamental assumptions of independence of the mind and appearance (Wines, 2012; Stewart and Subramanian, 2010).

Independence in exists when auditors are able to act with objectivity, integrity, impartiality and free from any conflict of interest (Hailemariam, 2014). Auditors should therefore be sufficiently independent from those they are required to audit in order to conduct their work without interference.

#### **2.4.3 Internal Audit Agency Act, 2003 (Act 658)**

As part of the reforms of the Public Financial Management Reform programme, a study for the establishment of internal control audit functions in Ministries, Departments and Agencies and Metropolitan, Municipal and District was carried out. It resulted in proposals for the establishment of a Central Internal Audit Agency to enhance efficiency, accountability and transparency in the management of resources in the public sector.



The Government therefore, by the Internal Audit Agency Act, 2003 (Act 658) set up the Internal Audit Agency as an apex oversight body to co-ordinate, facilitate and provide quality assurance for internal audit activities within Ministries, Departments and Agencies (MDAs) and Metropolitan, Municipal and District Assemblies (MMDAs).

The Agency is governed by a nine-member Board drawn from the public sector, the private sector and the Institute of Chartered Accountants (Ghana). The Board formulates policies and establishes appropriate structures for the effective and efficient execution of the Agency's mandate. It ensures that the Agency operates within the overall framework of Act 658 and also facilitates collaboration with other agencies for the achievement of improved management of national resources. The Secretariat of the Agency is headed by a Director-General, supported by two Deputy Director-Generals and four Directors.

The functions of the Secretariat include the following: Securing the execution of the policies of the Board; Making regular reports to the Board on the management and operations of the Agency; Providing the data, statistics and advice necessary for the formulation of policies for the attainment of the object of the Agency; and Performing such other duties as the Board may direct.





#### **2.4.4 Challenges of Internal Audit**

No matter how well internal controls are designed, they can only provide reasonable assurance that objectives have been achieved. Some problems that are inherent in all internal control systems include:

##### **i. Disclosure**

The consequences of disclosure of an internal control constitute a major problem for non-profit organizations. Previous research into the consequences of an internal control deficiency has focused predominately on for-profit firms' cost of equity capital, either directly or indirectly through the market's response to the announcement of an internal control problem. However, the results are inconsistent. Some studies have found that the disclosure of an internal control problem is associated with higher costs of equity capital (Beneish, et al 2008). The negative market reaction to the announcement of the problem of auditors was also pronounced in the finding of Beneish et al 2008). A control's impact may be entity-wide or specific to an account balance, class of transactions or application. Controls have unique characteristics. They can be: automated or manual; reconciliations; segregation of duties; review and approval authorizations; safeguarding and accountability of assets; preventing or detecting error or fraud. Controls within a process may consist of financial reporting controls and operational controls.

##### **ii. Judgment**

The effectiveness of controls will be limited by decisions made with human judgment under pressures to conduct business based on the information at hand. According to Lannoye (1999 cite in Appiah, 2012), effective internal control may be limited by the realities of human judgment. Decisions are often made within a limited time frame without the benefit



of complete information and under time pressures of conducting agency business. These judgment decisions may affect achievement of objectives, with or without good internal control. Internal control may become ineffective with management's failure to minimize the occurrence of errors, for example misunderstanding instructions, carelessness, distraction, fatigue or mistakes.

### **iii. Breakdowns**

Even well designed internal controls can break down. Employees sometimes misunderstand instructions or simply make mistakes. Errors may also result from new technology and the complexity of computerized information systems.

### **iv. Management Override**

High level personnel may be able to override prescribed policies and procedures for personal gains or advantages. This should not be confused with management intervention, which represents management actions to depart from prescribed policies and procedures for legitimate purposes. Management may sometimes override or disregard laid down policies, procedures and controls for their own gains. Some of the override practices by management include misrepresentations to state officials, staff from the central control agencies, auditors or others. Management override must not be confused with management intervention (i.e. the departure from prescribed policies and procedures for legitimate purposes). Intervention may be required in order to process non-standard transactions that otherwise would be handled inappropriately



by the internal control system. A provision for intervention is needed in all internal control systems since no system anticipates every condition.

#### **v. Collusion**

Control systems can be circumvented by employee collusion. Individuals acting collectively can alter financial data or other management information in a manner that cannot be identified by control systems. The effectiveness of segregation of duties lies in individuals' performing only their assigned tasks or in the performance of one person being checked by another. There is always a risk that collusion between individuals will destroy the effectiveness of segregation of duties. For example, cash receipts from customers can collude with the one who records these receipts in the customers' records in order to steal cash from the entity (Williams 2000).

According to Williams (2000), recommended finding to improving controls within a department is usually heard in three basic arguments, first been that management does not have enough staff to have adequate segregation of duties. Secondly, findings were too expensive to be implemented and lastly employees' trust and controls are not always seen as necessary.

Askey and Dale (1994) were the first authors to identify problems in the internal audit processes with the first version of the auditing standard, ISO 10011. According to scholars, findings can be identified following nine potential failures in the internal audit process when conducting case study research at one organization. These encompasses: lack of commitment on the part of auditors and auditees; poor timekeeping during the audit; a bureaucratic reporting system; not keeping to the annual schedule; lack of differentiation between a nonconformity and an improvement suggestion; failure of the audit mechanism to take into account the





original procedures may have omissions that can change the procedures thereby distorting the original intent; lack of action on results is usually indicative of lack of senior management commitment to the audit programme; auditors that do not have a clear objective and checklist may become swamped in detail and a concern among auditees that problems highlighted in their areas may reflect poorly on their abilities as managers.

However, this list was updated by Karapetrovic and Willborn (2000) who detected 16 failures in internal quality auditing as follows: absence of opening meetings; errors in audit planning stages; inadequate audit programme management; use of unqualified or incompetent auditors to conduct a specific audit; Inadequate and improper use of sampling methods and other audit methodologies when collecting evidence; lack of a sufficient amount of audit evidence; deficient or missing verification of evidence; biased evaluation of audit evidence against audit criteria; acceptance of a non-compliant or ineffective management system in certification audits; rejection of a compliant and effective management system in certification audits; subjective, biased or unduly-influenced audit report; audit objectives do not reflect the underlying policy; audits are declared feasible when they are not; audit errors remain undetected; deficiencies in material resources and lack of available time to conduct the audit and inconsistencies in audit findings between internal and external (Third Party) audits.

The approach of these scholars was anecdotal or theoretical and did not provide empirical evidence about which of these failures represented the greatest problems for organizations. However, it is clear that many organizations especially Small Scale Enterprises (SMEs)



experience problems with their internal auditors and hence the assessment of their QMS (Briscoe et al., 2005).

Kinney (2000) however, recognized that internal auditing may face the following challenges: Image ; Communication; Availability and Competence of Internal Audit Staff Competence; Ethical Conduct / Independence.

In most organizations in a country like Ghana, the image of internal auditors is rather a bad one. Internal auditors have come to be seen as "enemies of management" in some organizations; this may stem from misunderstanding of the roles and duties of internal auditors. Some top and middle level management members do not even see the contributory role internal auditors play in ensuring effective internal control and overall achievement of set objectives. Rather, they are seen as a group of people who only exist to check fraud, irregularity, misappropriation or errors. This rather unfortunate image makes the work of the internal auditors difficult, as virtual and valuable information, in some instance, are hidden from them in the course of their work. They are scorned and stigmatized in many organizations.

The challenge, however, is not devastating in many well - established companies since the organizations in question have embraced the useful roles internal auditors play in ensuring the achievement of corporate goals. In companies where this challenge exists and abound, efforts can be made by the Chief Audit Executive (CAE), or the internal auditor as the case may be in Ghana, to educate ad sensitize the various stakeholders and those concerned to understand and appreciate such invaluable role.



Although communication has always been of utmost importance for internal auditors, it has now taken an even more prominent role. Auditors have to speak clearly and succinctly while conveying sensitive issues and findings to appropriate parties, such as the audit committee. Lately, it has become even more apparent that audit committees must receive more information about the company's risk and controls - a responsibility that falls to the CAE and the internal audit unit with input from the external auditors.

With the myriad of changes in today's business community, keeping the internal audit team members up to date will require serious commitment to continuing professional education. Reputations fall very quickly when incompetent or untrained staff is assigned to tasks beyond their ability.

The size of internal audit staff and the competency of internal audit are the critical characteristics of internal audit quality that cannot be separated. The empirical findings by Al-Twaijry et al. (2004), in Saudi Arabia, suggests that the adequate internal audit is a prerequisite for quality auditing. They further stressed that, adequate staff at the functional units, will provides more opportunity and flexibility to have a staff rotation schedule that can influence IA effectiveness by promoting healthy relationship and resulting in more objective audit investigations.

An audit requires a professional staff that collectively has the necessary education, training, experience and professional qualifications to conduct the full range of audits required by its mandate (Al-Twaijry et al, 2004). Auditors must comply with minimum continuing education





requirements and professional standards published by their relevant professional organizations (IIA, 2012).

The IIA's standard 1210, on proficiency of the auditor require that the internal auditors should possess the knowledge, skill and other competencies need to perform their responsibilities (IIA, 2012). Furthermore, the critical dimension of internal auditor function (IAF) is the quality of its internal auditing staff measured in terms of internal auditor's skill (Seol et al, 2011). As part of this, Competency Framework for Internal Auditing (CFIA) focuses on the skills needed by an individual person to be an efficient internal auditor.

Another challenge for individual internal auditors as well as entire internal audit departments is ensuring ethical conduct in their operations; demonstrating the willingness to do the right thing at the right time, even in the face of opposing views. The tendency for management to pry into the activities of the internal audit department is very high. The internal auditor should be and must be seen to be independent with an acceptable line of responsibility and clear terms of authority. Thus, the independence is manifested in the responsibility structure, his mandatory authority and approach to work.

The Financial Markets' Authority (AMF), (2004) report on corporate governance and internal control, notes that unlike corporate governance, which now benchmarks standards against which issuers can compare themselves, the absence of unanimously accepted reference framework for internal control makes the task of describing it much more difficult and can be an obstacle if one eventually wishes to assess the adequacy and effectiveness of the systems.



## 2.5 Effectiveness of Internal Audit in Tanzanian Commercial Banks

Ramachandran et al (2012) aims at ascertaining whether the commercial banks in Tanzania have the internal audit function as a mere legal compliance, which implies additional cost without value additions, or whether the internal audit function is genuinely used as a value added function, which implies that the cost is complimented by equivalent benefits..

The study posits that there is positive relationship between internal audit resources and competencies and internal audit effectiveness in Tanzania commercial banks. This implies that increase in the level of internal audit resources and competencies will also result in an increase in the level of internal audit effectiveness in these banks, while the decrease in the former will also result into a decrease in the latter significantly. The study findings suggest that an increase in the level of internal auditors' resources, such as human capital i.e. proportion of the number internal auditors to the total number of employees, will bring better internal audit effectiveness in Tanzanian commercial banks.

It was also observed that there is no significant relationship between internal audit activities and internal audit effectiveness in commercial banks in Tanzania. This signifies that the internal audit activities i.e. the level of involvement of internal auditors in risks management activities are not perceived to be very important.

The study further posits that there is a significant relationship between level of interaction by the internal auditors with audit committee and internal audit effectiveness in commercial banks in Tanzania. This indicates that higher interaction between the internal auditors and members of the audit committee contribute to internal audit effectiveness in Tanzanian Commercial Banks.



argues that organizations that have internal audit functions are more likely to detect fraud. They therefore opine that organizations with effective internal audit system can ensure fraud detection than those that outsource their internal audit function.

## **2.6 The Internal Audit Function**

In today's business environment, the internal audit function has become a major support function for management, the audit committee, the board of directors, the external auditors, and other key stakeholders. When properly designed and implemented, the internal audit function can play a key role in promoting and supporting effective organizational governance (Ruud, n.d). Given today's complexity in an organization's business activities, as well as of its business environment, the management of isolated business activities and the negligence of the relationships between them have not proven successful. Rather, a process-oriented management approach that integrates the whole "value chain" (Porter, 1985)

In order to provide most value-adding services, the internal auditing function needs to assume a process-oriented audit approach (Roth, 2002). Indeed, given the organization wide in-depth knowledge internal auditors accumulate throughout their careers, they are particularly familiar with an organization's value creation and are therefore ideal consultants for the improvement of an organization's processes. The improvement of internal processes is likely to have a positive effect on suppliers and customers (e.g., cost savings, reduced production times, improved quality of products), thus, the internal audit function is also able to add value to external parties. Assessing information all along the value creation process, the internal audit function contributes to more reliable and relevant information than if isolated information is evaluated.





This also allows an improved relationship and cooperation between the internal and external auditors and leads to more effective organizational governance.

A disciplined approach to value creation requires an organization to manage all significant and likely risks effectively. Risk can be considered both at the macro or portfolio level (enterprise-wide risk management) as well as the micro or departmental level. Important to realize, however, is that the ultimate responsibility for conducting risk management remains with top management and the board.

Just as crucial as it is to understand an organization's goals, is it crucial for an internal audit function to understand the risks that either threaten the achievement of objectives and goals (Standard 2110) or that fail to identify and explore new opportunities for the organization. Internal auditing is therefore expected to apply an integrated, process-oriented approach to the evaluation of risks in order to evaluate both upside and downside risks.

The internal audit function is the single most important internal assurance provider. It is essential for top management and the board to employ the available assurance functions in an optimal fashion, i.e., to evaluate how and what each assurance function contributes to the overall desired assurance level.

In addition to the responsibility of the chief audit executive, this is to be decided upon by the relevant organizational level such as top management or the board. This standard relates to the



external audit function, but internal assurance providing functions such as risk management and corporate compliance can similarly contribute effectively to total assurance coverage.

Among other functions within an organization, the position of the internal audit function is fairly unique in terms of: its advantageous position within the organization, the wide range of functional areas that it examines as well as the different types of audits capable of being performed, and the multidisciplinary backgrounds of individual auditors comprising the internal audit team (Rittenberg & Schwieger, 1997 cited in Ruud, n.d).

In the view of Ruud (n.d), these desirable features continue to exist in most in-house functions and co-sourcing arrangements, but are somewhat diminished in the context of full outsourcing of internal audit services. Nevertheless, in every situation, the organizational status, positioning, and independence of the internal audit function is of paramount consideration. In order to ensure that the internal audit function can operate effectively and achieve the desired outcome, it is paramount that the mandate is given from an adequately high organizational level. Internal auditors are therefore required to refrain from assessing specific operations, and to avoid conflicts of interest.

Organizations have encountered rapid changes in economic complexities, expanded regulatory requirements, and technological advancements in recent years. These changes have given the Internal Audit Function (IAF) a set of expanded opportunities to support management, provide services to other organizational functions, and generate direct reporting links to the audit committee (Hass et al, 2006).



According to Cai 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.

The Institute of Internal Auditors (IIA) (1999 cited in Grabmann, E. & Hofer, D., 2014) officially adopted a new definition of the internal auditing function. The new definition was developed by the Guidance Task Force of the Institute. They define 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).

According to KPMG (2008), internal audit plays a critical role in assisting board of directors to play their functions. In the view of KPMG, the role of internal audit is to assist the board of directors /or its audit committee in discharging its governance responsibilities by delivering: a review of organization’s control culture, especially the “tone at the top”.; an objective evaluation of the existing risk and internal control framework; systematic analysis of business processes and associated controls; review of existence and value of assets.; a source of information on major frauds and irregularities; ad hoc reviews of other areas of concerns, including unacceptable levels of risk and reviews of the compliance framework and specific compliance issues.





Deloitte Development (2013), also stated that specific expectations for internal audit functions vary by organization, but should include: objectively monitor and report on the health of financial, operational, and compliance controls; provide insight into the effectiveness of risk management; offer guidance regarding effective governance; become a catalyst for positive change in processes and controls; deliver value to the audit committee, executives, and management in the areas of controls, risk management, and governance to assist in the audit committee's assessment of the efficacy of programs and procedures and coordinate activities and share perspectives with the independent auditor.

According to International Standards of Auditing (ISA) 610, the functions of internal audit are; 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 rationalized accounting policies within a group, and to implement a new accounting systems and to conduct managements efficiency audits and post implementation audits of capital projects.

#### **2.6.1 Functions of the Internal Audit in the Public Sector of Ghana**

From the public sector perspective, internal audit plays a vital role in the, Miniseries, Departments and Agencies (MDAs) and Metropolitan, Municipal and District Assemblies (MMDAs). The functions of internal audit unit are enshrined in the Internal Audit Agency Act, Act 2003, (Act 658). The functions as stipulated in the Act include:

- i. the implementation of standards and procedures set by the board for the conduct of internal audit activities in the MDAs and MMDAs.



ii. assist the Agency by ensuring that;

- financial, managerial and operating information reported internally and externally is accurate, reliable and timely;
- the financial activities of MDAs and MMDAs are in compliance with laws, policies, plans, standards and procedures;
- national resources are adequately safeguarded;
- national resources are used economically, effectively and efficiently;
- plans, goals and objectives of MDAs and MMDAs are achieved; and
- risks are adequately managed in the MDAs and MMDAs.

iii. assist the Agency to;

- promote economy, efficiency and effectiveness in the administration of government programmes and operations;
- Prepare plans to be approved by the Board for the development and maintenance of an efficient internal audit for the MDAs and MMDAs;
- facilitate the prevention and detection of fraud; and
- provide a means for keeping the MDAs and MMDAs fully and currently informed about problems and deficiencies related to the administration of their programmes and operations and the necessity for appropriate corrective action and
- assist the Agency to monitor, undertake inspections and evaluate the internal auditing of the MDAs and MMDAs



Before the 1950's, internal audit activities in many organizations focused on financial audit, and internal audit departments were heavily involved in the review of financial statements.

Cai Chun, (1997) internal audit takes on a much broader and deeper perspective just as suggested in the IIA's statement of responsibilities of internal auditors: In this writer's view, the objective of internal auditing is to assist all members of management in the effective discharge of their responsibilities by furnishing them with analysis, appraisals, recommendations and pertinent comments concerning activities reviewed. He added that, internal auditors are concerned with any phase of business activity in which they may be of service to management. This involves going beyond the accounting and financial records to obtain a full understanding of the operations under review. But because the objective of internal audit must be consistent with the function of internal audit itself, it should also be to ensure and promote the effective performance of accountability to management. In order to achieve the functions and objectives discussed previously, internal auditors must create and provide at least, three conditions- independence, organizational status and objectivity, before setting up and conducting internal audit.

Ward and Robertson (1980) and Williams, (1978) asserted that the internal audit department must be granted the license to carry out its responsibilities freely and objectively and also their judgments must be unbiased.

Inferring from the various functions above, the internal audit unit of every organization provides consultancy and advisory services to the organization. It also reviews bank





reconciliation statement, vetting of salaries, pre-auditing of payment vouchers, store management and special assignment.

## **2.7 Objectives of Internal Audit and Types of Audit Performed**

According to Ghana National Auditing Standards (2001), the scope and objectives of internal auditing vary widely and depend on the size and structure of the entity and the requirements of its management. Ordinarily internal auditing activities include one or more of the following:

- i. Monitoring of internal control. The establishment of adequate internal control is responsibility of management which demands proper attention responsibility by management for reviewing controls, monitoring their operation and recommending improvements thereto.
- ii. Examination of financial and operating information. This may include review of the means used to identify, measure, classify and report such information and specific inquiry into individual items including detailed testing of transactions, balances and procedures
- iii. Review of the economy, efficiency and effectiveness of operations including non-financial controls of an entity
- iv. Review of compliance with laws, regulations and other external requirements and with management policies and directives and other internal requirements.



From the objectives given by the standard, the objective of internal auditing is to achieve sound internal control of operations.

In the view of Hailemariam (2014), a variety of audits are performed. These audits include:

Operations these audits examine the use of resources to determine if resources are being used in the most effective and efficient manner to fulfill the organization's mission and objectives.

Financial Audits: These audits review accounting and financial transactions to determine if commitments, authorizations, and receipt and disbursement of funds are properly and accurately recorded and reported. This type of audit also determines if there are sufficient controls over cash and other assets and that adequate process controls exist over the acquisition and use of existing resources.

Compliance Audits: These audits determine if entities are complying with applicable laws, regulations, policies and procedures. Examples include federal and state laws, and Trustee policies and regulations.

Information Systems Audits: These audits review the internal control environment of automated Information processing systems and how people use these systems. The audits usually evaluate System input, output; processing controls; backup and recovery plans; system security; and computer facilities.



Internal Control Reviews: These audits focus on the components of the major business activities, such as payroll and benefits, cash handling, inventory and equipment, physical security, grants and contracts, and financial reporting

### **2.7.1 Means of achieving internal control**

According to Omane (2005), control is the function of interpreting and acting upon instructions or performing required operations when certain specific conditions occur. It is important to stress that internal audit is a cardinal feature of the internal control system. In my opinion the two standard definitions should have specifically referred to internal audit in the definitions because of the increasingly important role internal audit plays in the administration of internal control system

The auditing practices committee of United Kingdom also define internal control as; The whole system of controls, financial and otherwise, established by the management in order to carry on business of the enterprise in an orderly and efficient manner, ensure adherence to management policies, safeguard the assets and secure as far as possible the complete accuracy of the records. The auditor uses the understanding of the internal control to identify types of potential misstatements, and design the nature, timing, and extent of further audit procedures. The auditor should obtain an understanding of the internal control relevant to the audit.

From the ISA315 view point, internal control is the process designed and affected by those charged with governance, management, and other personnel to provide reasonable assurance





about the achievement of the entity's objectives with regard to reliability of financial reporting effectiveness and efficiency of operation and compliance with applicable laws and regulations.

Thus a system of internal control refers to the totality of the plan of organization of a company and the underlying authorizing, checking and recording procedures which a company adopts to safeguard its assets, carry out the decisions of management, and provide an accurate information system and to run the business in an efficient manner.

The auditing practices committee of United Kingdom describes the components of internal control system in the auditor's operational standard as:

- i. **Organization:** Enterprises should have a plan of their organization, defining and allocating responsibilities and identifying lines of reporting for all aspects of the enterprise's operations, including the controls. The delegation of authority and responsibility should be clearly specified. It describes the structure of the company and serves as information blue print of the company for easy reference by employees of the company as well as the auditor
- ii. **Segregation of duties:** One of the prime means of control is the separation of those responsibilities or duties which would, if combined, enable one individual to record and process a complete transaction. Segregation of duties therefore calls for a situation where the accounting system and the management structure do not allow an individual to handle a transaction from its origin to completion without an independent check on this individual's work.



- iii. Physical:** These are concerned mainly with the custody of assets and involved procedures and security measures designed to ensure that access to assets is limited to authorized personnel. This includes both direct access and indirect access via documentation. These controls assume importance in the case of valuable, portable, exchangeable or desirable assets.
- iv. Authorization and approval:** All transaction should require authorization or approval by an appropriate responsible person. The limits for these authorizations should be specified.
- v. Arithmetic and accounting:** These are the controls within the recording function which ensures that the transactions to be recorded and processed have been authorized that they are all included: and, that they are correctly recorded and accurately processed. such controls includes checking the arithmetical accuracy of the records, the maintenance and checking of totals, reconciliations, control accounts and trial balances, and accounting for documents.
- vi. Personnel:** There should be procedures that ensure that personnel have capabilities commensurate with their responsibilities. Inevitably, the proper functioning of any system depends on the competence and integrity of those operating it. The qualifications, selection and training as well as the innate personal characteristics of the personnel involved are important features to be considered in setting up any control system.



**vii. Supervision:** Any system of internal control should include the supervision by responsible officials of day-to-day transactions and the recording thereof by responsible officials.

**viii. Management:** These are the controls exercised by management outside the day-to-day routine of the system. They include the overall supervisory controls (exercised by management), the review of management accounts and comparison of actuals expenditure with budgets, the internal audit function and any other special review procedures. ISA315 discusses internal control and summarizes the core components of the control system as:

✚ **The control environment:** The control environment includes the attitudes, awareness of those charged with governance concerning the entity's internal control and its importance in the entity. The control environment also includes the governance and management functions and sets the tone of an organization, influencing the control consciousness of its people. It is the foundation providing discipline and structure.

✚ **The entity's risk assessment process:** The entity's risk assessment process is its process for identifying and responding to business risks and the results thereof. For financial reporting purposes, the entity's risk assessment process includes how management identified risks relevant to the preparation of financial statements that give a true and fair view.





- ✚ **Control activities:** Control activities are the policies and procedures that help ensure that management directives are carried out, for example, that necessary actions are taken to address risks that threaten the achievement of the entity's objectives.

Generally, control activities that may be relevant to an audit may be categorized as policies and procedures that pertain to performance reviews, information processing, monitoring of controls, review of bank reconciliation, and internal auditors' evaluation of sales personnel's compliance with entity's policies in terms of sales contracts, regular management and supervisory activities of company operations, internal audit function management's action on external auditors' recommendation, and ongoing monitoring activities built into the normal recurring activities of an entity

## 2.8 Effectiveness of the Internal Audit Department

According to Gray & Manson (2005), to make the internal audit department effective, the following factors should be taken into consideration:

- i. **Support of top management:** The support of management is needed in view of the large area of activity covered by the department and the value apparently placed on their work. This support should also involve support for the department in all parts of the organisations to ensure that the auditors are treated with respect. It is important that the role of internal audit and its powers are well understood within the organisation. Internal audit is as useful as management allows it to be. Thus if internal audit issues reports critical of certain part as of the organization and



management takes no action for political reasons, this would tend to undermine the function and reduce its effectiveness. Management may also reduce the role of internal audit by restricting it to compliance auditing or would indicate auditors are able to initiate work without reference to the persons(s) to effectiveness. To the extent that their recommendations are put into effect, there would be a similar effect.

Notwithstanding the fact that internal auditors should have access to the audit committee, the IAF must nonetheless, interact with senior management on a close and regular basis since, the character of the function is determined completely by senior management's resource allocated to it, and the support and credence it gives to the role of organization-wide. Additionally, the involvement of senior management in formulating the work plan is necessary, since it is through top managers that internal auditors are empowered to secure access to the various functional departments. Hence, the ease with which internal auditors perform their duties is a reflection of senior management's sponsorship (Alzeban & Sawan, 2013).

Having access facilitated, internal auditors must keep senior managers informed of all activities it performs, and of the conclusions reached (Badara and Saidin, 2012). Reporting in the Malaysian public sector, Ahmad et al. (2009 cited in Alzeban & Sawan, 2013 ) observed that management support is the second highest contributor to internal audit effectiveness, and that with such support, sufficient



resources are usually allocated for the function, and its recommendations implemented; whereas without it, a lack of commitment to independence on the part of internal auditors is likely.

In the view of Alzeban and Gwilliam, (2012), management support has a strong impact upon the effectiveness of the internal audit function, and management support is important as a construct in its own right but also via its links to issues of resourcing, competence and qualification, and independence.

Independence of the internal auditor: forms the parts of the organization subject to audit, both in terms of area of works and to whom responsible (that is physical independence). Thus, if the internal auditor is investigating the efficiency of operations within the accounting department, it would be inappropriate for the auditor to report to chief accountant (who may be the prime cause of inefficiencies within the department). In recent years and particularly since the Cadbury committee reported in 1992, audit committees have become an important feature of corporate governance.

- ii. **A strong ethical culture** in the company and the department. Clearly the head of internal audit would play a vital role in this respect.
- iii. **Appointment of motivated staff** with good education background, requiring mindsets and with the ability to communicate well and to get on well with people of widely





differing backgrounds. In view of the diverse range of activities in which internal auditors are involved staff members should possess a suitable range of skills.

- iv. Continuing education and training.** Competence is just as important as independence and internal auditors should receive proper continuing educating and training. This factor will not only enhance general efficiency and effectiveness of internal audit, but is also important for enhancing independence, as it raises the statues of the auditor. A well-informed and competent auditor will be better able to recognize the dangers of mental dependence
- v. An appraisal system** that ensures that good work is properly rewarded including promotion.
- vi. Good leadership of the department** ensures that all staff are aware of objectives, suitable audit techniques and approaches and deadlines.
- vii. Good communication links with all part as of the organization,** which ensures needed information is available and that reasonable deadlines are set for the work to be performed.
- viii. Steps to ensure that staff behaves in a professional way.** This includes maintaining an independent state of mind even where the auditor is involved in participative auditing. Independence in mental attitude is difficult to measure but it is clear that it is a critical aspect of auditor effectiveness, whether internal or



external. Internal auditors are often members of professional accounting bodies that expect their members to develop this professionalism and to behave with honesty and integrity in matters pertaining to their work. In recent years, the institute of internal auditors has promoted the qualification of 'internal auditor' and is operating an examination scheme leading to qualification as internal auditor. One would expect membership of professional bodies to be a factor enhancing the statues of internal auditors.

- ix. Steps to ensure high job satisfaction.** This might include giving staff the chance to work on more interesting tasks such as making decisions on the acquisition of companies and disposal of part of the organization, even if this might be in a junior capacity initially.

In the past when internal auditors were concerned principally with compliance auditing there was often apperception of conflict between auditor and auditee. People in organizations often held unfavorable images of internal auditors who intended to have lower job satisfaction than middle level managers and external auditors. Low job satisfaction clearly would be a factor limiting effectiveness particularly if the person being audited makes the auditor feel unwelcome.

However, move form compliance to efficiency and effectiveness auditing causes a shift from an inspection style to an advisory and participative teamwork approach with management. This clearly does not mean that conflict will disappear but the argument is that internal audit would be seen as performing a useful and effective role within the organization.



## 2.9 Effectiveness and Implications of Internal Audit in Hospitals

Government laws and regulations regulate the affairs of internal auditing in government hospitals. Certain assets such as buildings and infrastructure may be outside the control of those who occupy them. Moreover, government entities rarely collapse due to auditors' failures and not reporting to shareholders as the case may be in the private companies. The question that everyone may ask is, how relevant is internal control in the government context? It is relevant because government is the custodian of the resources owned by the citizens and they expect effective and efficient utilization of these resources to promote economic growth and development. The weakness or absent of internal control in government institutions may lead to corruption, misappropriations of funds and inefficiencies in the systems (CDD Ghana, 2000). The compounded effects of corruption, misappropriation of funds and inefficiencies includes; low standard of living, government budget deficit and inequality of redistribution of resources

One way of understanding the need for government systems of internal control is to think of government entities as corporate bodies and to ask how system of controls used in large private sector entities are relevant to management improvements (IFAC, 2006). It is appropriate for each local level government to develop its own internal control system that will ensure transparency, public accountability, effectiveness, efficiency and responsiveness.

An effective audit committee will also be beneficial for the shareholders and stakeholders alike.

Literature reveals the eminent roles that audit committees play in the internal control system of institutions. As such, KPMG (2005) emphasizes that audit committees should be being properly constituted. In its view, a properly structured audit committee will aid corporate board of





directors to establish an audit committee that will assist in discharging its fiduciary responsibility.

Numerous studies including Cohen & Savag, (2010) have considered the effectiveness of internal auditing by making reference to the function's ability to satisfy the needs of auditees. These studies sought to measure directly the auditee's satisfaction with the work of internal audit whereas other studies such as Mihret and Yismaw, (2007) used an indirect measure, in particular to explore the extent to which internal audit recommendations are endorsed and acted upon.

Undoubtedly, this notion demands an assessment of all those dimensions of business activities which internal audit observes and as the capacity to influence, and this extends to include corporate performance. Linked to this are those studies concentrated on the ability of the internal audit function to positively influence the quality of corporate governance (Sarens, 2009), which by implication includes the capacity to ensure that risk management and internal control processes are effective.

Few studies have sought to use direct economic criteria although it has been argued that quality is only one aspect of effectiveness and that the cost of achieving that quality needs to be taken into account (Cashell & Aldhizer, 2002) and that studies which do not consider the interrelationship between quality and cost are only giving a partial account of effectiveness in the wider sense.



Whilst there is undoubtedly some force to this argument, the difficulty of collecting reliable data as to internal audit costs has meant that few studies have in fact gone down this route (although auditees are likely to impute an implicit notion of cost-effectiveness when evaluating quality).

An audit committee can only be effective if it has the right characteristics. Thus the value of an effective audit committee hinges on the characteristics it possesses. Audit committees can also only be effective if the audit committee members themselves, as well as all the parties of the committee interact with, clearly understand and respect the committee's rights, duties and responsibilities. Only then will there be honest, open and constructive dialogue and interaction between the relevant parties and the audit committee.

Literature reveals that for audit committees to be effective it must have certain essential ingredients. For instance, Marx, (2008) revealed the following to be essential aspects for audit committees to be effective.

From this writer's perspective the board of the institution should understand and respect the role, position, limitations and responsibilities of the audit committee and the value it can bring to the board. This might not always be the case, however, as some boards and board chairmen can at the one extreme perceive the audit committee as a burden, a necessary nuisance imposed on them by legislation, codes of corporate governance or an additional cost. At the other extreme the board can consider the audit committee as the be-all and end-all of its financial reporting and related responsibilities and assign tasks to the committee that is outside its remit.



He again opines that the audit committee and all its members should understand their role, responsibilities, limitations and importance. The audit committee will only be effective if it is properly constituted, consists of qualified and experienced members, understands its responsibilities and performs them with vigor and dedication and that all the parties that interact with the audit committee, specifically financial management as well as external and internal auditors, should understand the status, role and responsibilities of the audit committee. For the audit committee to effectively perform its financial reporting and control oversight role, it is essential that the committee is provided with all the relevant information and facts in an open, honest and transparent manner. As such, the internal and external auditors are often seen as the 'eyes and ears' of the audit committee.

Internal audit is a long-standing function and an effective tool of management in many organizations. Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization to accomplish its objectives bringing a systematic and disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes. Internal auditing is a catalyst for improving an organization's governance, risk management and management controls by providing insight and recommendations based on analyses and assessments of data and business process. Internal Audit is a tool used to achieve an ideal combination of financial audit, operational auditing and reviews the plans for the future. For Internal Audit to be effective, it should provide three types of services; Preventive, Protective and Curative. In the preventive role, it forewarns the management of an adverse situation in advance; it protects management by bringing to light the deficiencies in advance, before the





external auditors point out; and as a curative function, it suggests remedial measures, thereby acting as a catalyst for change and action.

With commitment to integrity and accountability, internal auditing provides value to governing bodies and senior management as an objective source of independent advice. Professionals called internal auditors are employed by organizations to perform the internal auditing activity OKEZIE, (2004).

Ideally, internal audits should not be checklist audits. Section 8.4.1 of the ISO 22000 standard states, "Selection of auditors and the conduct of audits shall ensure the objectivity and impartiality of the audit process." This means organizations must select and educate a team of auditors to ensure internal auditing is done by independent personalities of the area being audited. As a result of their involvement in organizational risk management, internal auditors need to have higher educational and professional backgrounds. Hospitals in particular handle crucial matters which borders on human health. Thus, the need for health institutions to see the internal auditing function as a core management function.



## CHAPTER THREE

### RESEARCH METHODOLOGY

#### 3.1 Introduction

Method is a way of having something done. In the view of Dordah (2012) for any task or problem to be achieved, there are procedures and processes to achieving them. An appropriate methodology is a necessary ingredient for any research to achieve its set target. Methodology refers to the theoretical analysis of the methods appropriate to a field of study or to the body of methods and principles particular to a branch of knowledge (Berg Bruce L. 2009). Research methodology is the procedures by which researchers go about their work of describing, explaining and predicting phenomena are called research methodology (Rajasekar et al, 2006). This chapter focuses on the research design, target population, sample and sampling techniques, sources and methods of data collection, data analysis and presentation, reliability and validity, ethical considerations and profile of the study area.

#### 3.2 Research Design

Research design relates to the plans and procedures for research; that is the decisions from broad assumptions to detailed methods of data collection and analysis (Creswell, 2009). Payne and Payne (2008) explained social research to include qualitative (naturalist's) and quantitative (positivist's) data from samples of people, by means of their verbal responses to uniform sets of systematic, structured, questions presented either by interviews or self-completion questionnaires. Qualitative research design is a means of exploring and understanding the meaning individuals or groups ascribe to a social problem. The process of research involves emerging questions and procedures, data typically collected in the participant's setting, data



analysis inductively building from particulars to general themes, and the researcher making interpretations of the meaning of the data (Creswell, 2009).

Quantitative research design is a means for testing objective theories by examining the relationship among variables. These variables, in turn, can be measured on instruments, so that numbered data can be analyzed using statistical procedures. (Creswell, 2009). This study was qualitative in nature but did not reject the quantitative approach because both approaches are very essential in presenting the research work.

### **3.3 The Study Population**

According to Mugenda & Mugenda, (2003), a population is an entire group of individuals, events or objects having common features that conform to a given specification. The target population is the entire group of individuals or objects to which researchers are interested in generalizing the conclusions (Agyapong and Adam, 2015). In order to assess the internal audit system of hospitals, St. Joseph Hospital was chosen because of its central location among the eleven District Assemblies and moreover, it has a blend of Missionary and Government partnership in the running of its administrative activities. Besides, this hospital is the oldest in the region and so it is expected that all the checks and balances regarding prudent financial management such as internal audit should be put in place. The target population for this study comprises Doctors, Nurses, Finance, Internal Audit; Revenue Collectors, Pharmacists, Procurement, Storekeepers and General Administration of the hospital. These people are targeted because they form the core in running the hospital. However, records available at St.





Joseph Hospital indicate that there are one hundred and ninety-seven (197) health workers as indicated in Table 3.1.

**Table 3.1 Target Population**

| SN. | TARGET POPULATION      | NUMBER     |
|-----|------------------------|------------|
| 1.  | Doctors                | 3          |
| 2.  | Nurses                 | 95         |
| 3.  | Finance                | 2          |
| 4.  | Internal Audit         | 2          |
| 5.  | Pharmacists            | 6          |
| 6.  | Revenue Collectors     | 10         |
| 7.  | Procurements           | 2          |
| 8.  | Storekeepers           | 2          |
| 9.  | General Administration | 20         |
| 10. | Others                 | 27         |
| 11. | <b>TOTAL</b>           | <b>197</b> |

Authors Construct, 2016.

### 3.4 Types and Sources of Data

According to Agyapong and Adams (2015) data are the qualitative and quantitative variables, belonging to a set of items. This study relied on both primary and secondary sources of data using the mix method of data collection (Creswell, 2009)



### **3.4.1 Primary Sources of Data**

Primary data are the data collected by the researcher from the original source. These data could be collected through the use of instruments such observation, questionnaires and interviews (Agyapong and Adams (2015). Primary data was therefore collected by the use of questionnaire and interviews. These data was collected from the hospital administrator, Head of Finance, Internal Auditor, Revenue Collectors, Nurses, Doctors, Storekeeper and the Procurement Officer of St. Joseph Hospital.

Secondary data are the type of data that has been sourced by others and used for their particular purpose and which may be stored and sometimes published. These data could be sourced from journals, books periodicals and many more. For the purpose of this study, secondary data was sourced from the Financial Administration Act and Accounting, Treasury and Financial regulations and the St. Joseph Hospital's human resource records.

### **3.5 Sample and Sampling Techniques**

A sample is a representation of a population which shares similar characteristics. In social science research, sampling techniques are sometimes employed to select a sample especially, where the population is too large for the researcher to conduct a census. In the view of Twunasi (2001), in sampling the research scientist first of all determines his population universe. He must be able to outline the parameters of the population he wants to study and also consider the characteristics of the population and even find out whether it is a homogenous or a heterogeneous population.



In this study, the sample size was determined based on purpose and convenience rather than a defined research method. This stemmed from the fact that the target population was made up of unrelated subjects. Consequently, it was impractical to base the sample size determination on an indicator that pertains to a single subject (United Nations, 2008). The sample size was thus determined based on the sample frames that were obtained as indicated in Table 3.1 above. In the sample size determination for this study “others” (labourers, cleaners, security) as indicated in the table were excluded as they might not have in-depth knowledge about the subject matter. Thus, the study arrived at a sample size of 70 (70) which was purposively determined arbitrary and not by any predetermined formula since the study population is heterogeneous in nature.

In this particular study the researcher purposively selected the particular units of the universe to constitute the sample on the basis that the small mass selected out of the huge one was representative of the whole (Grinnell, 1993). The importance of selecting this technique by the researcher is the relative merit of the available resource obtainable. The sample size is thus, illustrated in Table 3.2 below.





**Table 3.2: SAMPLE SIZE**

| SN. | TARGET POPULATION      | NUMBER     | SAMPLE ARBITRARY<br>SELECTED |
|-----|------------------------|------------|------------------------------|
| 1.  | Doctors                | 3          | 3                            |
| 2.  | Nurses                 | 95         | 48                           |
| 3.  | Finance                | 2          | 1                            |
| 4.  | Internal Audit         | 1          | 1                            |
| 5.  | Pharmacists            | 1          | 1                            |
| 6.  | Revenue Collectors     | 10         | 5                            |
| 7.  | Procurement            | 1          | 1                            |
| 8.  | Storekeepers           | 2          | 1                            |
| 9.  | General Administration | 20         | 10                           |
|     | <b>TOTAL</b>           | <b>136</b> | <b>70</b>                    |

**Source: Author's Construct, 2016**

### **3.6 Data Collection Instruments**

An appropriate data collection instruments are requisite in collecting scientific data in social science research. Though there are numerous data collection instruments, this study employed questionnaire and interview in the data collection process. Data was collected under the quantitative methods by means of questionnaire.

A questionnaire is explained as a document containing questions and other types of items such as statements designed to solicit information on specific issues, themes, problems or opinions to be investigated (Babbie, 2005). In the view of Agyepong and Adams (2015), questionnaires may contain open-ended or closed-ended questions. The choice of questionnaire to collect data was informed by the research objectives and target population. Consequently, questionnaires were administered to the Head of Finance, Internal Auditor, Revenue Collectors, Nurses,



Doctors, Storekeeper and the Procurement Officer of St. Joseph Hospital. The choice of questionnaire was based on the fact that they can easily generate large amounts of data within a short period and is relatively cost effective. Aside, the data collected can easily be analyzed by the researcher by means of a computerized software package such as statistical package for social scientist (SPSS).

The study also employed in-depth interviews to collect data. The objectives for the study which determined the key themes guided the order of the interview questions (Ola-Omi, 2009). Interview guides were therefore constructed to using standardized open-ended questions. Interview was used to ensure further explanation of the key variables which the respondents might not have revealed in the questionnaire.

### **3.7 Profile of the Study Area**

According to the Jirapa District composite budget (2013), the Jirapa District was established by LI 1902 and was carved out of the then Jirapa Lambussie District in 2007 as part of efforts to deepen Ghana's decentralization process. The district has its capital as Jirapa hence the administrative hub of the district which is 62 kilometers away from Wa, the Regional capital.

The creation of the District seek to increase the citizenry direct participation in local governance; enhance the local authority (DA) response to the priority needs and aspirations of the local population; facilitate public monitoring of the operations of the DA; promote transparency and accountability to the local population; effectiveness and efficiency of the DA officials and to enhance effective and efficient use and fair distribution of available resources



The district is located in the North Western corner of the Upper West Region of Ghana. It lies approximately between latitudes 10.25° and 11.00° North and longitudes 20.25° and 20.40° West. It covers a total land area of 833.8 sq. km.

It is bordered to the South by the Nadowli District, to the North by the Lambussie -Karni district to the West by Lawra District and to the East by the Sissala West District. Its location presents a special development advantage to the district. The District has seven (7) Area Councils and one (1) Town council with a total of 139 communities

According to the 2010 Population and Housing Census, the estimated population of the Jirapa District was 88,402 consisting of 41,592 males (47%) and 46,810 females (53%).

With a land size of 833.8 Kilometer square, the population density stands at 112 persons per square kilometer. Consequently, there has being an increasing pressure on land and other existing social amenities like the district hospital, water facilities among others.

The main ethnic group is the Dagaaba who speak Dagaari and represents about 99.5% of the district's population. However, there are pockets of Sissalas, Fulani, Wangara and Moshie ethnic groups settled in the district.

Agriculture is the major economic activity. About 90% of the population is engaged in agriculture which is largely subsistence in nature. Only few farmers are engaged in large-scale production of cereals and legumes in Han and Mwankuri area. Major crops produced include; millet, groundnuts, maize, sorghum, cowpea and rice. Cash crops cultivated include: shea nuts, cotton, groundnuts and cashew. Most farmers still use hoe and cutlasses in cultivating their





land. Only few farmers use tractor services and animal traction. Farmers depend largely on the annual rainfall for cultivation of their lands which is however erratic in nature.

Though manufacturing and agro processing is of great importance in the district, it is done on a small scale. This sector covers shea butter and dawadawa extraction, basket and pottery making, carpentry, masonry, pito brewing and neem cane chair, blacksmithing and bed making. These products are mainly for the local market since there is inadequate credit and management skills to produce in large quantities for external market. This gives birth to the vicious circle of low production and low incomes of farmers and agro processors.

There are no Commercial Banks in the District. The three main financial institutions in the District are the Sonzele Rural Bank Limited with an agency in Hain, the St. Joseph's Credit Union and the GN Bank all situated in Jirapa. These two financial institutions play a very important economic role by granting credit facilities to its customers, Small-Scale Business operators and farmers, which has impacted positively on the lives of the people in the district.



### 3.7.1 Background of St. Joseph's Hospital

St. Joseph's Hospital, Jirapa, was started by the Franciscan Missionaries of Mary congregation (FMM) in 1949 in their convent, as wound dressing Centre for the people of Jirapa and its surrounding communities. In 1953, the then Catholic Church mission of Tamale adopted and converted the wound dressing Centre into a hospital to provide basic services in general medicine, deliveries, surgery and pediatrics, with the sole aim of extending the healing ministry of Christ to the poor and marginalized. Aside the clinical service, the Hospital was also mandated to train nurses and midwives to the required standards of the regulatory bodies (Ministry of Health).

It was later moved to its present site and managed solely as a mission institution by the church. Their critical staffs were mainly expatriates. In 1956 the mission entered into an Agency Agreement with the government of the then Gold Coast, now Ghana, where the government was required to provide infrastructure, as may be required, and pay the emoluments of the required staff engaged. The Agency Agreement in its original form has remained till date, but its operation has substantial change over the period. The training school has assumed autonomy and the mode of engagement and employment of some key staff have altered.

The Hospital has assumed the role of District Hospital for Jirapa District with its catchment population of 88,402 in the year 2000. This population is spread over seven (7) sub-district and fourteen active Community Health-base Planning Services (CHIPS) zones.



### 3.8 Reliability and Validity

In the view of Agyapong and Adam (2015) reliability is concerned with consistency or “repeatability” of your measures while validity is the degree to which the measurement process measures the variable it claims to measure. The concept of validity sometimes appears under different terminology in qualitative research (Bryman, 2008). This writer admits the importance of validity in research, but expresses the concern that some validity criteria measurement and internal validity are tilted more towards quantitative than qualitative research.

Consequently, if questionnaires can test what they intended for, they refer to validity, whereas, reliability measures the relevance (Kiama, 2014). The researcher pre-tested the questionnaire to ensure their validity and reliability. Both open and close-ended questionnaires were also used to eliminate biases.

#### 3.8.1 Ethical Consideration

There are ethics in every human endeavor just as it is in research. In the view of Resnik (n.d.), Ethics are the norms for conduct that distinguish between acceptable and unacceptable behavior. In his view, norms promote the aims of research, such as knowledge, truth, and avoidance of error. There are different views about what ethics are all about thus, there are different ethical standards for different institutions and professions (Bryman, 2008). Considering the different opinions about ethics, it thus appears ethics is meant to ensure the avoidance of harm to the research subjects, the researchers and the research profession.

Ethical standards promote the values that are essential to collaborative work, such as trust, accountability, mutual respect, and fairness. The privacy of respondents must always be upheld





(Saunders *et al.*, 2007 cited in Akwensivie, 2015). ). Being mindful of this, the researcher did not specifically seek the identity of the respondents and did not also invade their privacy. As such, the researcher asked permission from management of St. Joseph Hospital to conduct the research. They were assured that their responses were for purely academic purposes and nothing else. Other works from which the researcher taped knowledge were duly referenced.



## CHAPTER FOUR

### RESULTS AND DISCUSSIONS

#### 4.0 Introduction

The bane of this study is to investigate the factors that influence internal audit effectiveness at St. Joseph Hospital, Jirapa in the Upper West Region of Ghana. Consequently, this chapter takes a critical look at the data that was collected and analyzed them in line with the objectives. The chapter discusses the demographic characteristics of the category of respondents (Head of Finance, Internal Auditor, Revenue Collectors, Nurses, Doctors, Storekeeper, and the Procurement Officer and Administrative staff of St. Joseph Hospital. It also discusses the views of the research respondents that were captured using the survey instruments.

#### 4.1 Demographic Characteristics of Respondents

This part of the work presents the demographic characteristics of respondents who participated in the research work, in terms of age, sex, education and the number of years the respondents worked with hospital. This is to enable the researcher assign some attributes to the population. . Consequently, data was collected on the age, gender, educational attainment and the length of period the participants had worked in their current positions

##### 4.1.1 Gender, Age and Educational Levels of Respondents

Age is an ingredient in the understanding of social issues as it helps in determining one's level of experience in a particular field. The ages of respondents were put into five categories. This was to ensure that the views expressed by the respondents reflected their differential experiences and opinions about the internal audit control system at St. Joseph Hospital. Thus, the age cohorts were Age 18 - 30, 31 - 40, 41 - 50, 51 - 60 and above 60 for all the respondents



as can be depicted from Table 4.1. Equally important is the education levels of respondents of the respondents. Education sharpens and also creates awareness of the individual whether in one's social life or in employment. It is the bedrock of creative thinking and enhances one's ability to make informed decisions. With higher education of the professionals, they participate actively in making decision in their day to day running of their departments in dealing with issues relating to auditing. In this study, the respondents' levels of education were sought as that could have an influence on their responses pertaining to internal audit. Consequently, the number of male respondents with certificates was 8 (53%) while female respondents who obtained certificates were 7 representing 47%. Also, of the 38 respondents, 13 males representing 34% obtained diploma while 25 females representing 66% had diploma. In addition, 3 males representing 60% of the 5 respondents obtained bachelor's degrees, while 2 females representing 40% had bachelor's degree. There was only 1 male respondent with a master's degree and 3 with a doctorate degree. Comparatively the total number of females was 34 representing 56% as against the male counterparts who were 28 representing 44%. Unlike other sectors where there is always male dominance, St. Joseph Hospital had females dominating. It can be inferred that females are much more interested in health care delivery because of modest nature. From Table 4.1 majority of the respondents fall within the 41 – 50 age cohorts.





**Table 4.1: Gender, Age and Educational Levels of Respondents**

| Level of Education |                       |        | Age of Respondents |            |           |            |           |            |           |            |           |            | Total     |
|--------------------|-----------------------|--------|--------------------|------------|-----------|------------|-----------|------------|-----------|------------|-----------|------------|-----------|
|                    |                       |        | 18 - 30            |            | 31 – 40   |            | 41 - 50   |            | 51 – 60   |            | Above 60  |            |           |
| Certificate        | Gender of Respondents |        | Frequency          | Percentage | Frequency | Percentage | Frequency | Percentage | Frequency | Percentage | Frequency | Percentage | Frequency |
|                    |                       | Male   | 0                  | 0          | 2         | 100        | 3         | 43         | 3         | 60         | 0         | 0          | 8         |
|                    | Female                | 0      | 0                  | 0          | 0         | 4          | 57        | 2          | 40        | 1          | 100       | 7          |           |
|                    | Total                 | 0      | 0                  | 2          | 100       | 7          | 100       | 5          | 100       | 1          | 100       | 15         |           |
| Diploma            | Gender of Respondents | Male   | 0                  | 0          | 5         | 45         | 8         | 35         | 0         | 0          | 0         | 0          | 13        |
|                    |                       | Female | 1                  | 100        | 6         | 55         | 15        | 65         | 3         | 100        | 0         | 0          | 25        |
|                    | Total                 | 1      | 100                | 11         | 100       | 23         | 100       | 3          | 100       |            |           | 38         |           |
| Bachelors          | Gender of Respondents | Male   | 0                  | 0          | 0         | 0          | 2         | 60         | 1         | 100        | 0         | 0          | 3         |
|                    |                       | Female | 0                  | 0          | 1         | 100        | 1         | 40         | 0         | 0          | 0         | 0          | 2         |
|                    | Total                 | 0      | 0                  | 1          | 100       | 3          | 100       | 1          | 100       |            |           | 5          |           |
| Masters            | Gender of Respondents | Male   | 0                  | 0          | 0         | 0          | 0         | 0          | 1         | 100        | 0         | 0          | 1         |
|                    | Total                 | 0      | 0                  | 0          | 0         | 0          | 0         | 1          | 100       | 0          | 0         | 1          |           |
| Doctorate          | Gender of Respondents | Male   | 0                  | 0          | 1         | 100        | 1         | 100        | 1         | 100        | 0         | 0          | 3         |
|                    | Total                 | 0      | 0                  | 1          | 100       | 1          | 100       | 1          | 100       | 0          | 0         | 3          |           |
| Total              | Gender of Respondents | Male   | 0                  | 0          | 8         | 53         | 14        | 41         | 6         | 55         | 0         | 0          | 28        |
|                    |                       | Female | 1                  | 100        | 7         | 47         | 20        | 59         | 5         | 45         | 1         | 100        | 34        |
|                    | Total                 | 1      | 100                | 15         | 100       | 34         | 100       | 11         | 100       | 1          | 100       | 64         |           |

Source: Field Survey, 2016



Experience is knowledge or mastering of an event gained through involvement or exposure to it. One way through which experience can be acquired is the length of period worked in an organization. Though one may not be directly involved in internal auditing activities at St. Joseph Hospital, the number of years worked can have an influence on individual contribution to audit activities.

In Table 4.2, 4(6.2%) of the respondents worked less than one year with the Hospital, 20(31.2%) worked from one to five years, 29(45.3%) worked between six to ten and 11 representing 17.2% worked above ten years. From the analysis, it can be deduced that majority of the respondents (45.3%) have the experience and are capable of contributing positively to the discussions of internal audit issues.

**Table 4.2: Number of years worked at St. Joseph Hospital**

| Period             | Frequency | Percentage (%) |
|--------------------|-----------|----------------|
| Less than 1 year   | 4         | 6.2            |
| 1-5 years          | 20        | 31.3           |
| 6-10 years         | 29        | 45.3           |
| More than 10 years | 11        | 17.2           |
| <b>Total</b>       | <b>64</b> | <b>100</b>     |

Source: Field Survey (2016)



#### 4.2 Effectiveness of Internal Audit System at St. Joseph Hospital

The existence of a permanent auditor in an organization is a pre-requisite for an effective internal control. This enables pre-auditing and post-auditing to be carried on regular basis and in a manner that is consistent with internal auditing rules and regulations. Pre-auditing is an audit approach where payment vouchers are reviewed by audit before final payment is made. It involves re-casting of the figures on the PV. Verification of supporting documents and also checking for appropriate authorization before payments are made. Post-auditing is where supporting documents are reviewed weekly/monthly after the transaction has occurred.

In the case of St. Joseph Hospital there is no permanent Internal Auditor as evident in Table 403 where 62(96.9%) of the respondents indicated that there was no permanent Internal Auditor. Further enquiries revealed that the only Internal Auditor who does auditing at the hospital is stationed at the Wa Regional Health Stores.

In terms of frequency of auditing, 3(4.8%) said that auditing was carried out daily, 40(64.5%) indicated weekly, 7(11.3%) indicated monthly, 8(12.9%) said quarterly and 4(6.5%) mentioned that auditing was done on annual basis. Considering the frequency of auditing majority of the respondents agreed that auditing was done weekly and this implies that pre-auditing is not effectively done. This could be attributed to the fact that the hospital does not have a permanent Internal Auditor.

It can be inferred that the absence of pre-auditing makes it impossible to correct accounting errors and further does not provide a clear picture of the financial situation of the hospital at a given time. The 2(3.1%) respondents who indicated that there was a permanent Internal





Auditor could be among the minority respondents 4(6.2%) in Table 4.2 who have worked with the hospital for less than one year and could probably not have adequate knowledge of the existence of an Internal Auditor.

**Table 4.3 Availability of Permanent Internal Auditor and Frequency of Auditing**

| Permanency of Internal Auditor |           |            | Frequency of Auditing |            |           |            |           |            |           |            |           |            |
|--------------------------------|-----------|------------|-----------------------|------------|-----------|------------|-----------|------------|-----------|------------|-----------|------------|
|                                |           |            | Daily                 |            | Weekly    |            | Monthly   |            | Quarterly |            | Yearly    |            |
| Responses                      | Frequency | Percentage | Frequency             | Percentage | Frequency | Percentage | Frequency | Percentage | Frequency | Percentage | Frequency | Percentage |
| YES                            | 2         | 3.1        | 1                     | 50         | 1         | 50         | 0         | 0          | 0         | 0          | 0         | 0          |
| NO                             | 62        | 96.9       | 3                     | 4.8        | 40        | 64.5       | 7         | 11.3       | 8         | 12.9       | 4         | 6.5        |
| Total                          | 64        | 100        | 4                     | 54.8       | 41        | 114.5      | 7         | 11.3       | 8         | 12.9       | 4         | 6.5        |

Source: Field Survey, 2016

Expertise and experience are key ingredients for successful delivery of every activity. An Auditor per the Companies Act, 1963, Act 179 is expected to conduct his or her duty skillfully, carefully, diligently and creditably and as the internal auditor is expected to follow suit in the discharge of his or her duties. The Internal Auditor will be able to perform his or her duties as outlined if he or she has the expertise and experience and in particular, be in the position to identify activities that are not in conformity with internal auditing.



In Table 4.4, a frequency of 49 respondents representing 76.6% responded that the Internal Auditor had the expertise and experience, while 15 representing 23.4 indicated that he had no expertise and experience to carry out his duties. In the identification of non-compliance issues, 47 respondents representing 73.4% mentioned that the internal auditor could identify non-compliance activities, while 17 respondents representing 26.6% indicated that he could not identify non-compliance activities. From the above analyses, it can be deduced that the Internal Auditor has the needed auditing skills to carry out his work.

**Table 4.4: Experience and Expertise of Internal Auditor and Identification of Non-Compliance**

| IDENTIFICATION OF NON- COMPLIANCE |           |            | EXPERIENCE AND EXPERTISE |            |
|-----------------------------------|-----------|------------|--------------------------|------------|
| Responses                         | Frequency | Percentage | Frequency                | Percentage |
| YES                               | 47        | 73.4       | 49                       | 76.6       |
| NO                                | 17        | 26.6       | 15                       | 23.4       |
| Total                             | 64        | 100        | 64                       | 100        |

Source: Field Survey, 2006



#### 4.3 The Extent to which St. Joseph Hospital has complied with the Internal Audit System

One basic function of an Internal Auditor is his ability to critique non-compliance issues and makes recommendations to management for improvement and also following up to ensure that the reports are implemented according to auditing standards.

In Table 4.5, in terms of criticisms and recommendations 51(79.7%) indicated that the Internal Auditor criticizes on issues of non-compliance and makes recommendations to management, while 13(20.3%) mentioned that the Internal Auditor offers no criticisms and recommendations. With reference to issuance of audit reports, 45(70.3%) stated that the Internal Auditor after every audit issues reports to management and 55(85.9%) of the respondents confirmed that he follows up to ensure implementation of the reports. In spite of the positive responses, 13(20.3%) noted that the Internal does not criticize and make recommendations whereas 19(29.7%) and 9(14.1%) said that he does not issue audit reports and ensure their implementation respectively.

Since majority of the respondents have responded in the affirmative, it appears that the Internal Auditor performs his duties in line with the tenets of auditing and thus making the internal audit system effective.

**Table 4.5: Criticisms and Recommendations of Non-Compliance and the Issuance of Reports by the Internal Auditor to Management for Implementation**

| Criticisms and Recommendations |           |            | Issuance of Reports |            | Implementation of Au Reports |       |
|--------------------------------|-----------|------------|---------------------|------------|------------------------------|-------|
| Responses                      | Frequency | Percentage | Frequency           | Percentage | Frequency                    | Perce |
| YES                            | 51        | 79.7       | 45                  | 70.3       | 55                           | 85.9  |
| NO                             | 13        | 20.3       | 19                  | 29.7       | 9                            | 14.1  |
| Total                          | 64        | 100        | 64                  | 100        | 64                           | 100   |

Source: Field Survey, 2016





#### 4.4 Contributions of Management Support to Internal Audit Effectiveness at St. Joseph Hospital

Internal Auditing in any organization will not be effective if management of that organization is not supportive especially, in the area of resources. These resources include computers, stationery and furniture. Apart from logistics, it is important for management to make available records and information to the Internal Auditor.

With reference to logistics, respondents were of the view that management provided only stationery and furniture for the Internal Auditor. However, with the advent of technology and globalization, computers and their software are an integral part of auditing which are not provided. According to a respondent “We do not have a permanent Internal Auditor and so management does not see the need to provide all logistics, we largely rely on an Internal Auditor who is stationed in Wa”. In relation to records and information, majority of the respondents indicated that the internal Auditor is allowed access when demanded.

**Table 4.6: CHALLENGES OF THE INTERNAL AUDIT SYSTEM AT ST. JOSEPH HOSPITAL**

| CHALLENGES                                    | FREQUENCY | PERCENTAGE |
|---|-----------|------------|
| Lack of permanent Internal Audit Staff        | 32        | 50         |
| Inadequate logistics                          | 14        | 21.8       |
| Intimidation and interference                 | 6         | 9.4        |
| Indifferent attitude                          | 8         | 12.5       |
| Disregard to accounting standards and polices | 4         | 6.3        |
| <b>Totals</b>                                 | <b>64</b> | <b>100</b> |

Source: Field Survey, 2016



The study tried to identify and assess the challenges that could impede the effectiveness of the internal audit system at St. Joseph Hospital. The details of the challenges identified are illustrated in Table 4.6.

From Table 4.5, 32(50%) reported that lack of permanent internal audit staff was a major challenges affecting audit internal system at St. Joseph Hospital. It was revealed that the only internal auditor who carried out auditing at the hospital was officially working at the Regional Medical stores in Wa. It was also found out that the only Auditor at the hospital undertakes internal audit practices in all the functional departments and units at the Hospital.

It can be inferred that the dual role played by the Auditor makes the work difficult and stressful and this could affect the effectiveness of the internal audit system. Under normal circumstances, a public hospital such as St. Joseph Hospital should have a permanent internal auditor and other subordinates to perform internal audit function. This finding is in tandem with Appiah (2012) when he found out that inadequate audit staff constituted a major problem.

With reference to logistics, 14(21.8%) of the respondents indicated that there was inadequate logistics for the internal auditor to perform his duties. In a well-functioning internal audit system, logistics such as Lap tops, cameras, portable scanners to capture spot data and observations as evidence to support documentations on financial improprieties are required. However, the study discovered that the only office created for internal auditing activities had one desk top computer. Inadequate logistics further worsens the plight of the internal auditor who is not a permanent staff at the hospital. Transportation is an important facet of logistics as



it enhances the movement of workers. The study found out that the internal auditor who is stationed in Wa commutes by public means to and fro Jirapa in order to perform his duties. It can be deduced that due to the unreliable nature of the public transport system, pre-auditing and post-auditing could be affected.

Interference of the work of internal audit staff is also found to be a challenge. From Table 4.5, 6(9.4%) of the respondents stated that management of the hospital do interfere with the work of the internal auditor. It was also indicated that some staff throw or burn important files or falsifies documents in order to cover up their misdeeds. In order to buttress this assertion a respondent stated that "An officer deliberately in 2015 burnt a pay voucher because he could not account for some money he spent". It was further mentioned that intimidations in the form of threats and assault are normally mounted to internal audit staff who are able to identify a fraudulent practice and do not compromise on such standards.

Another challenge with internal audit system at St. Joseph Hospital is the disregard of accounting standards and practices. In internal auditing, all items procured need to be pre-audited by the internal auditor to ensure that they are in compliance with the specifications before they are received by the stores. Unfortunately, the study unearthed that, items bought for the hospital are rather sent directly to the stores and the supporting documents given to the accounts section to effect payment. In Table 4.5, a frequency of 4 representing 6.3% of the respondents indicated that most accounting standards at the hospital especially keeping of ledgers and cash books are not done properly since supporting documents in the form of receipts and invoices are not attached to the payment vouchers making auditing of such transactions very difficult.





Indifferent attitudes of management constituted a challenge to the internal audit practices at St. Joseph Hospital. From Table 4.5, 8(12.5%) of the respondents noted that management showed indifferent attitude towards the internal auditor at St. Joseph Hospital. A respondent stated that “Some officers of the hospital do not want to associate with the internal auditor for fear of leaking secrets to the auditor”. This finding is in consonance with Appiah (2012) when he indicated that most often; other staff do not give the needed support to the internal auditor.

#### **4.5 Chapter Summary**

This chapter presented and discussed the research findings and provided answers to the research questions posed in chapter one of the study. The discussions of the findings of this study, contributes significantly to knowledge by carefully analyzing the current state of the internal system at St. Joseph Hospital. This therefore gave way for the researcher to draw relevant conclusions and make recommendations for effective utilization of the internal audit system at St. Joseph Hospital.



## CHAPTER FIVE

### SUMMARY, CONCLUSION AND RECOMMENDATION

#### 5.0 Introduction

This chapter presents a summary of the research findings. It also presents the conclusions and recommendations made based on the findings that are analyzed in chapter four.

#### 5.1 Summary of Findings

The main objective of the study was to investigate the effectiveness of the internal audit system at St. Joseph Hospital. This therefore required specifically, examining the extent to which St Joseph Hospital has complied with the internal audit system, examining the contributions of management support for internal audit effectiveness, and identifying and evaluating the challenges of the internal audit system at St. Joseph Hospital.

The findings on the first objective revealed that there is no permanent Internal Auditor at St. Joseph Hospital. Further enquiries revealed that the only Internal Auditor who does auditing at the hospital is stationed at the Wa Regional Medical Stores.

In examining the extent to which St. Joseph Hospital has complied with the internal audit system, it was revealed that the internal auditor makes recommendations to management for improvement and also following up to ensure that the reports are implemented according to auditing standards.



Furthermore, in examining the contributions of management support for the internal audit effectiveness, it was revealed that the internal auditor is allowed access to records and information, when demanded but that management does not see the need to provide logistics since the internal auditor is not permanent.

The challenges of internal auditing as identified by the study were lack of permanent internal auditor, inadequate logistics, indifferent attitude of some management staff and disregard for accounting standards and practices.

## **5.2 Conclusions**

Internal Auditing has come a long way. History is an important piece to our future by learning from its mistakes. Internal auditing keeps an organization in check by ensuring that pre-auditing and post auditing are carried out on daily, monthly or quarterly bases. It keeps management on its toes by ensuring prudent spending such that value for money is achieved.

The study investigated the effectiveness of the internal audit system at St. Joseph Hospital as its main objective. It was revealed that there is no permanent Internal Auditor at St. Joseph Hospital. Further enquiries revealed that the only Internal Auditor who does auditing at the hospital is stationed at the Regional Medical Health Stores. The study therefore established that the non-existence of an internal auditor could negatively affect the effectiveness of the internal audit system at St. Joseph Hospital.

The study concludes that the Internal Auditor criticizes on issues of non-compliance and makes recommendations to management. Since majority of the respondents have responded in the





affirmative, it appears that the Internal Auditor performs his duties in line with the tenets of auditing and thus making the internal audit system effective.

With regard to management support for internal audit effectiveness, the study asserts that management provided inadequate logistics especially that there is no internal audit unit, but however created the enabling environment for the Internal Auditor to perform his duties since he is allowed access to records and information.

Based on the research findings, it is established that the under listed are among the factors militating against the effectiveness of the internal audit system at Joseph Hospital: lack of permanent internal auditor, inadequate logistics, indifferent attitude of some management staff and disregard for accounting standards and practices. The hurdles identified in the study have some dire consequences on the internal audit system at Joseph Hospital. The onus therefore lies on all stakeholders to act in concert to find a solution to the hurdles identified.

Although the study revealed that there are a myriad of challenges with the internal audit system at Joseph Hospital, it acknowledges that the hospital has chokd remarkable success in internal audit process as some amount of auditing is carried out by the hospital though not in-line with internal auditing standards.

### **5.3 Recommendations**

This research has thrown more light on how effective the internal audit system is at St. Hospital and the challenges that hamper the realization of its effectiveness. The valuable contributions from the research respondents have helped identified some prudent measures when enforced can aid in the effective and efficient implementation of the internal audit system at St. Joseph



Hospital. These measures are categorized into: establishment of an internal audit unit, appointment of a permanent Internal Auditor and support staff, provision of adequate logistics and ensuring compliance with the Audit Act.

### **5.3.1 Establishment of an Audit Unit.**

One area which the study identified as a challenge to the internal audit system at St. Joseph Hospital was the absence of an internal audit unit. The internal audit is a critical organ in every establishment that is dedicated to carrying out pre-auditing and post auditing activities. It is responsible for ensuring that internal controls are achieved which suggests that its absence means that there will be no checks and balances in both the financial and administrative processes and that could lead to misappropriation of funds and other malfeasants. There is therefore the need for St. Joseph Hospital to lease with the Ministry of Health and Ministry of Finance to establish an internal audit unit.

### **5.3.2 Recruitment of a Permanent Internal Auditor**

The importance of a permanent internal auditor in organization such as St. Joseph Hospital cannot be overemphasized. The internal auditor ensures pre-auditing and post-auditing so that errors are identified and corrective measures are taken. Consequently, the study recommends for appointment of a permanent internal auditor. The internal auditor would be expected to prepare and submit to senior management and the board a summary of the plan of work for the upcoming year. The summary should be approved by senior management and tendered to the board for informational purposes. Such information would help the board ascertain if the work of internal auditor supports the objectives and plans of the hospital.



### **5.3.3 Provision of Logistics**

Logistics can be said to be the life wire of every entity as it enhances the effective and efficient delivery of services. Logistics come in varied forms including transportation and stationery. While transportation especially private type facilitates the movement of staff to-and-fro work and further aids staff to honour appointments on time, stationery is central to the routine administrative work of every outfit. As relayed in the study, the internal auditor largely depends on public transportation system which often results in lateness. It is therefore recommended that the management of St. Joseph Hospital should provide the basic means of transportation such as a motor bike for the internal auditor if they intend to make him effective and efficient.

### **5.3.4 Orientation of staff on the importance of positive attitude towards internal audit**

Internal auditing like any other organizational activity requires a concerted effort of staff of an organization in order to achieve the purpose for which it is established. Thus it is important that both managers and subordinates of St. Joseph Hospital maintain and demonstrate positive and supportive attitude towards the internal audit system of hospital in order to ensure its success. In order to achieve this at the hospital, the St. Joseph Hospital should liaise with Ghana Audit Service of the Wa Municipality to organize a workshop to orient the staff of the Hospital on the importance of positive attitude toward internal audit.

### **5.3.5 Application of audit standard and principles in the preparation of audit reports**

In auditing, there are usually set standards and policies that underscore the process of conducting quality auditing. Several organizations have developed such set principles which must be observed in order to ensure that the auditing reports are considered liable and relevant.





Unfortunately, in St. Joseph Hospital in Jirapa, the study discovered that there is total disregard to audit standard and policies. It is therefore recommended that the internal audit should ensure that set audit standard and policies pertaining to the St. Joseph Hospital are adhered when preparing the internal audit reports.



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## Appendice I

### UNIVERSITY FOR DEVELOPMENT STUDIES, TAMALE

#### Survey Questionnaire

The intent of this questionnaire is to collect data that will aid in assessing the Internal Audit (IA) effectiveness. The Thesis is a requirement for the award of Master of Commerce Degree (Accounting Option). Please, do not write your name on the questionnaire and also be assured that the information you are providing will be treated with utmost confidentiality and used only for the purpose of this study.

Thank you for your support and participation.

Tick the appropriate response in the brackets or write where applicable.

#### SECTION A: Background of Respondent

1. Gender                      Male [ ☐ ]                      Female [ ☐ ]
  
2. Age 18 to 30 [ ☐ ], 31 to 40 [ ☐ ], 41 to 50 [ ☐ ], 51 to 60 [ ☐ ] above 60 [ ☐ ]
  
3. Level of education  

|                                |                              |
|--------------------------------|------------------------------|
| Senior High School ("A" Level) | [ <input type="checkbox"/> ] |
| Certificate                    | [ <input type="checkbox"/> ] |
| Diploma                        | [ <input type="checkbox"/> ] |
| Bachelors                      | [ <input type="checkbox"/> ] |
| Masters                        | [ <input type="checkbox"/> ] |
| Doctorate                      | [ <input type="checkbox"/> ] |
  
4. Number of years worked with St. Joseph Hospital  

|   |                                      |   |
|---|--------------------------------------|---|
| Less than 1 [ <input type="checkbox"/> ], 1 to 5 [ <input type="checkbox"/> ] | 6 to 10 [ <input type="checkbox"/> ] | More than 10 years [ <input type="checkbox"/> ] |
|---|--------------------------------------|---|

#### SECTION B: Effectiveness of the internal audit system in St. Joseph Hospital

The Questionnaire is prepared using a Likert-scale format of five (5) point scales. Kindly tick the appropriate scale (point) that indicates your opinion in the table below. The values



of scales are as follows; 5 = strongly agree, 4 = Agree, 3 = Neutral, 2 = Disagree, and 1 = strongly disagree

| S.N | The effectiveness of internal auditor (s)' in identifying noncompliance activities and other contributions to the hospital.                                | The Scales |   |   |   |
|-----|--|------------|---|---|---|
|     |  | 5          | 4 | 3 | 2 |
| 1   | Internal auditor (s) can effectively identify and report any noncompliance issues with regard to the hospital policies and procedures.                     | 5          | 4 | 3 | 2 |
| 2   | Internal Auditor (s) provide useful recommendations and constructive criticisms on non-compliances activities or control systems of the hospital.          | 5          | 4 | 3 | 2 |
| 3   | Management of St. Joseph Hospital use the recommendations and criticisms by the internal auditor (s) for decision making.                                  | 5          | 4 | 3 | 2 |
| 4   | The non-compliance reports provided by internal auditors are reliable and significant to St. Joseph Hospital.  | 5          | 4 | 3 | 2 |
| 6   | The internal auditors have confidence to issue audit report because they are capable to determine the nature and frequency of noncompliance activities.    | 5          | 4 | 3 | 2 |
| 7   | Internal audit ensures the economic, effective and efficient use of resources at St. Joseph Hospital.  | 5          | 4 | 3 | 2 |
| 9   | Internal audit ensures that activities performed are in compliance with the established policies, procedures, laws and regulations at St. Joseph Hospital. | 5          | 4 | 3 | 2 |
| 10  | Internal auditor (s) at St. Joseph hospital have the experience and expertise to address corporate risk management problems within the organization        | 5          | 4 | 3 | 2 |



**SECTION C: Extent to which St Joseph Hospital has complied with the internal audit System**

|     |   |   |   |   |   |   |
|-----|---|---|---|---|---|---|
| 11  | Management of St. Joseph Hospital makes it possible for the internal auditor to audit and review each activity on time, and cover the planned scope of auditing activities. | 5 | 4 | 3 | 2 | 1 |
| 12. | The hospital has a permanent Internal Auditor   | 5 | 4 | 3 | 2 | 1 |
| 13  | Management of St. Joseph Hospital adhere to queries and implements suggestions raised by the internal auditor.  | 5 | 4 | 3 | 2 | 1 |
| 14  | The Internal Audit Agency Act, 2003, (Act, 658) is effectively applied at St. Joseph Hospital   | 5 | 4 | 3 | 2 | 1 |

**SECTION D: Management Contributions towards Internal Audit Effectiveness at St. Joseph Hospital.**

|    |   |   |   |   |   |   |
|----|---|---|---|---|---|---|
| 14 | Management of St. Joseph Hospital offers full cooperation, grants access to records and information to the internal auditor |   | 4 | 3 | 2 | 1 |
| 15 | Internal auditors get the necessary resources that can help them in the discharge of their duties.                          | 5 | 4 | 3 | 2 | 1 |
| 16 | The hospital supports the internal auditor by providing or sponsoring training in order to improve his/her skills.          | 5 | 4 | 3 | 2 | 1 |





Section E: The Challenges of the Internal Audit System at St. Joseph Hospital.

|    |   |   |   |   |   |   |
|----|---|---|---|---|---|---|
| 17 | A. The Internal Auditor performs his/her activities without any interference from anybody?                                    | 5 | 4 | 3 | 2 | 1 |
|    | B. If not why .....   |   |   |   |   |   |
| 18 | A. The Internal Auditor freely decides on the scope, time and extent of auditing procedures based on auditing standards.      | 5 | 4 | 3 | 2 | 1 |
|    | B. If not why .....   |   |   |   |   |   |
| 19 | A. The Internal Auditor independently includes any audit finding in the audit work and report directly to a responsible body. | 5 | 4 | 3 | 2 | 1 |
|    | B. If not, why.....   |   |   |   |   |   |



## Appendice II

### UNIVERSITY FOR DEVELOPMENT STUDIES, TAMALE

#### Interview Guide

The intent of this interview guide is to collect data that will aid in assessing the Internal Audit (IA) effectiveness. The Thesis is a requirement for the award of Master of Commerce Degree (Accounting Option).

Thank you for your support and participation.

#### SECTION A: Background of Respondent

5. Gender                      Male [ ]                      Female [ ]
6. Age 18 to 30 [ ], 31 to 40 [ ], 41 to 50 [ ], 51 to 60 [ ] above 60 [ ]
7. Level of education
- |                                |     |
|--------------------------------|-----|
| Senior High School (“A” Level) | [ ] |
| Certificate                    | [ ] |
| Diploma                        | [ ] |
| Bachelors                      | [ ] |
| Masters                        | [ ] |
| Doctorate                      | [ ] |
8. Number of years worked with St. Joseph Hospital
- |                 |            |             |                        |
|-----------------|------------|-------------|------------------------|
| Less than 1 [ ] | 1 to 5 [ ] | 6 to 10 [ ] | More than 10 years [ ] |
|-----------------|------------|-------------|------------------------|

#### SECTION B: Effectiveness of the internal audit system in St. Joseph Hospital

1. Does the St. Joseph Hospital have an internal audit unit place?  
.....
2. What caliber of professionals work as internal auditors for the hospital?  
.....



3. How would you describe the internal audit system at St. Joseph Hospital?

.....

SECTION C: Extent to which St. Joseph Hospital has complied with the internal audit  
System

1. Does St. Joseph Hospital subject itself for internal auditing?

.....

2. Briefly explain how internal auditing is done at the hospital

.....

SECTION D: Contributions of management of St. Joseph Hospital for the enhancement of  
internal

Audit effectiveness

1. Would you say that staff of St. Joseph Hospital offer full cooperation, access to records and information for auditing purposes? Kindly explain your position.

.....

.

2. Does the internal auditor get the necessary resources that facilitate the performance of auditing activities?

.....

SECTION E: The challenges the internal audit unit faces in carrying out its audit practices at  
St. Joseph Hospital

1. In your opinion, what challenges do the internal audit unit face in the discharge of its duties?.....

