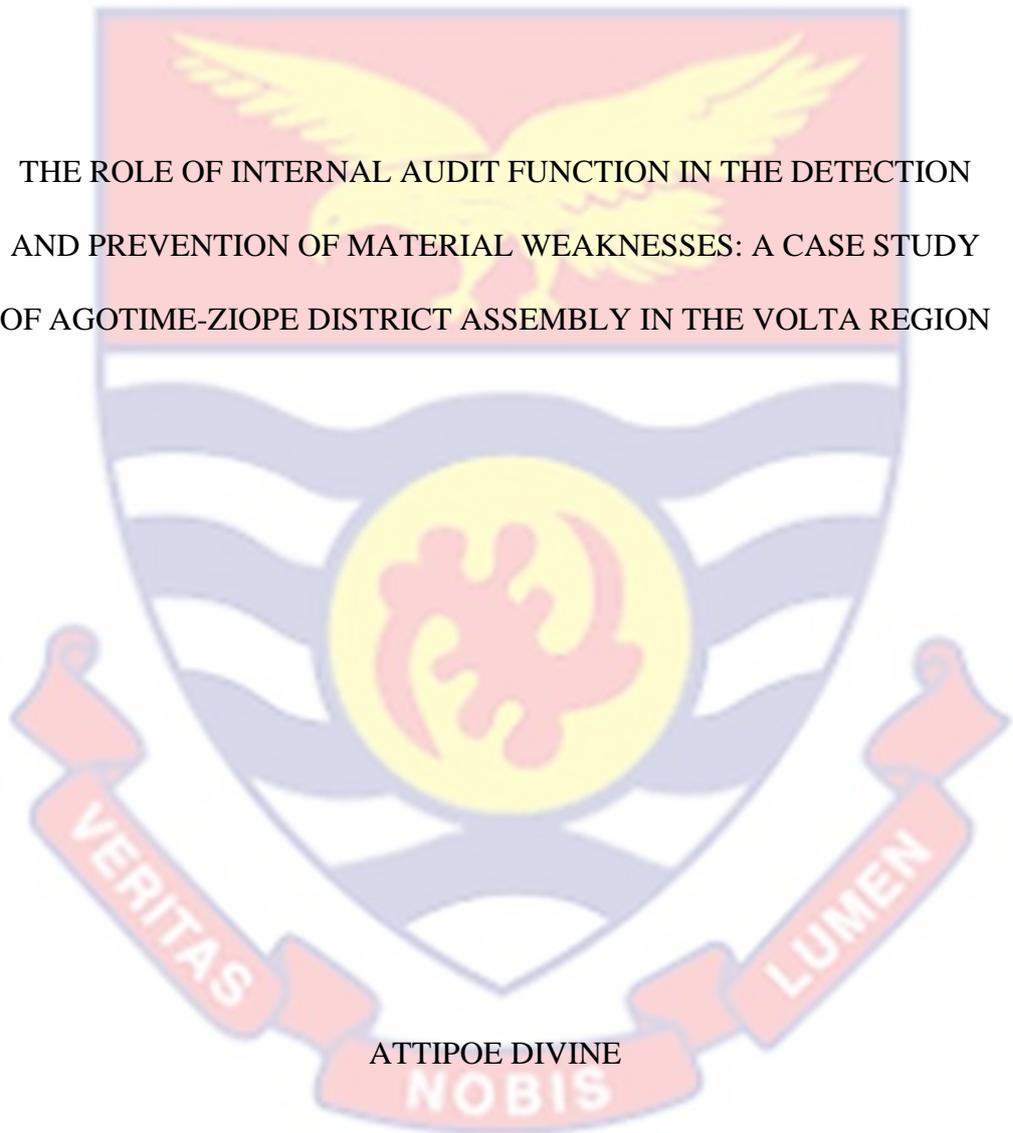


UNIVERSITY OF CAPE COAST

THE ROLE OF INTERNAL AUDIT FUNCTION IN THE DETECTION
AND PREVENTION OF MATERIAL WEAKNESSES: A CASE STUDY
OF AGOTIME-ZIOPE DISTRICT ASSEMBLY IN THE VOLTA REGION



2021

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AND PREVENTION OF MATERIAL WEAKNESSES: A CASE STUDY
OF AGOTIME-ZIOPE DISTRICT ASSEMBLY IN THE VOLTA REGION

BY

ATTIPOE DIVINE

Dissertation submitted to the Department of Accounting of the School of
Business, College of Humanities and Legal Studies, University of Cape Coast,
in partial fulfillment of the requirements for the award of Master of Business
Administration degree in Accounting.

JULY, 2021

DECLARATION

Candidate's Declaration

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

Candidate's Name: Attipoe Divine

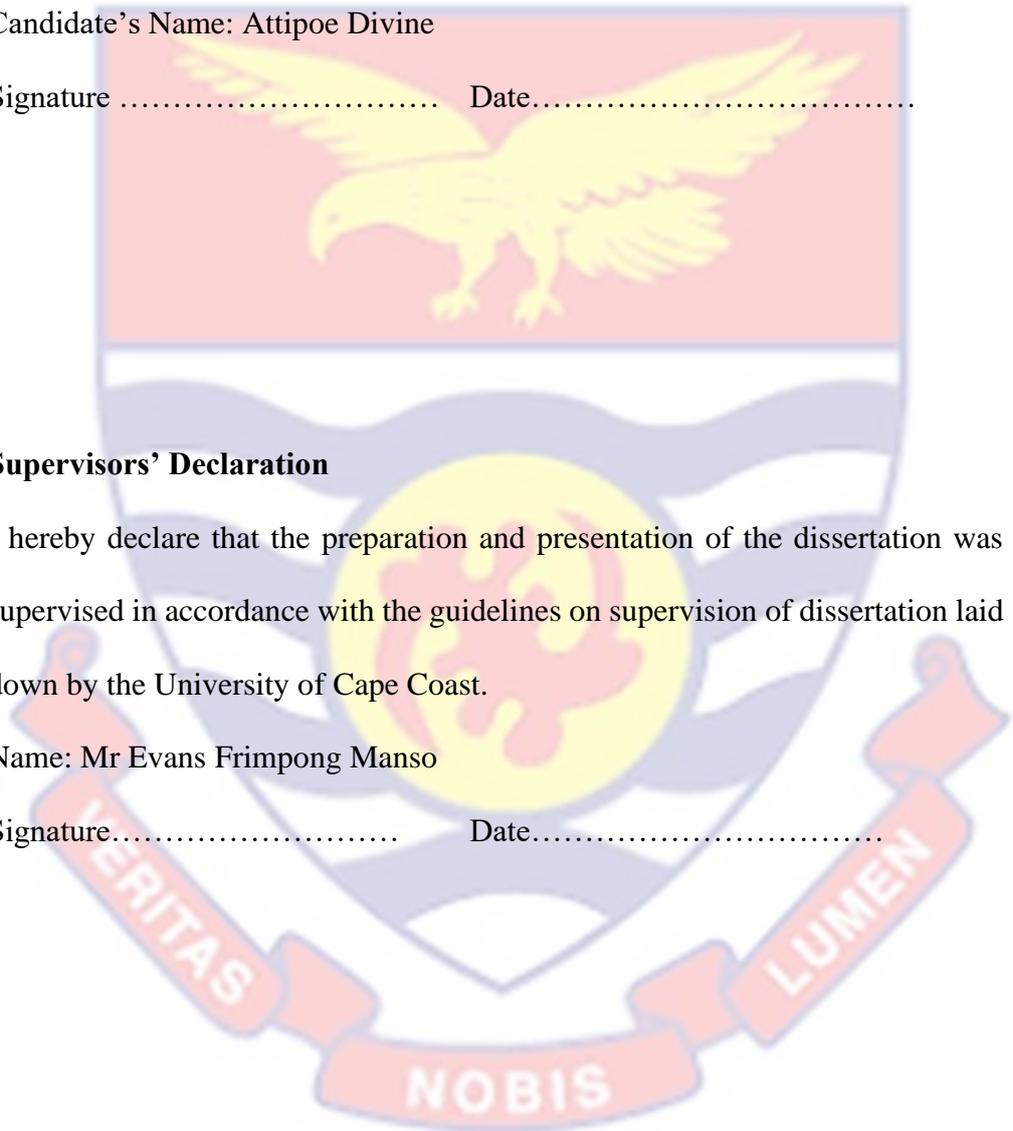
Signature Date.....

Supervisors' Declaration

I hereby declare that the preparation and presentation of the dissertation was supervised in accordance with the guidelines on supervision of dissertation laid down by the University of Cape Coast.

Name: Mr Evans Frimpong Manso

Signature..... Date.....



ABSTRACT

The purpose of setting up an internal audit unit in an organization is to expose or correct its material weaknesses to ensure that its specific goals and objectives are achieved. This study therefore focused on the role of internal audit function in the detection and prevention of material weaknesses in the Agotime-Ziope District Assembly in the Volta Region of Ghana. The descriptive survey method was used and data were collected through the use of questionnaires from a sample size of 75. Data generated were analysed with descriptive and inferential statistics. The study found that the Agotime-Ziope District Assembly does not have improper supervisory policies or regulations to improve upon the competency of staffs whilst performing an engagement, but rather, the archaic method is used. Again, it found that there is no existence of audit work schedules. Few logistics are provided to record the information obtained, analyses made and conclusions reached during an audit. The study recommends, among others, that Management of Agotime-Ziope District Assembly should encourage staff to strictly adhere to the audit charter to avoid major or minor deviations. Furthermore, Management of of Agortime- Zipoe District Assembly should be in position to create a software to aid in checking their books of account.

KEYWORDS

Business Environment

District Assembly

Institutions

Internal Audit

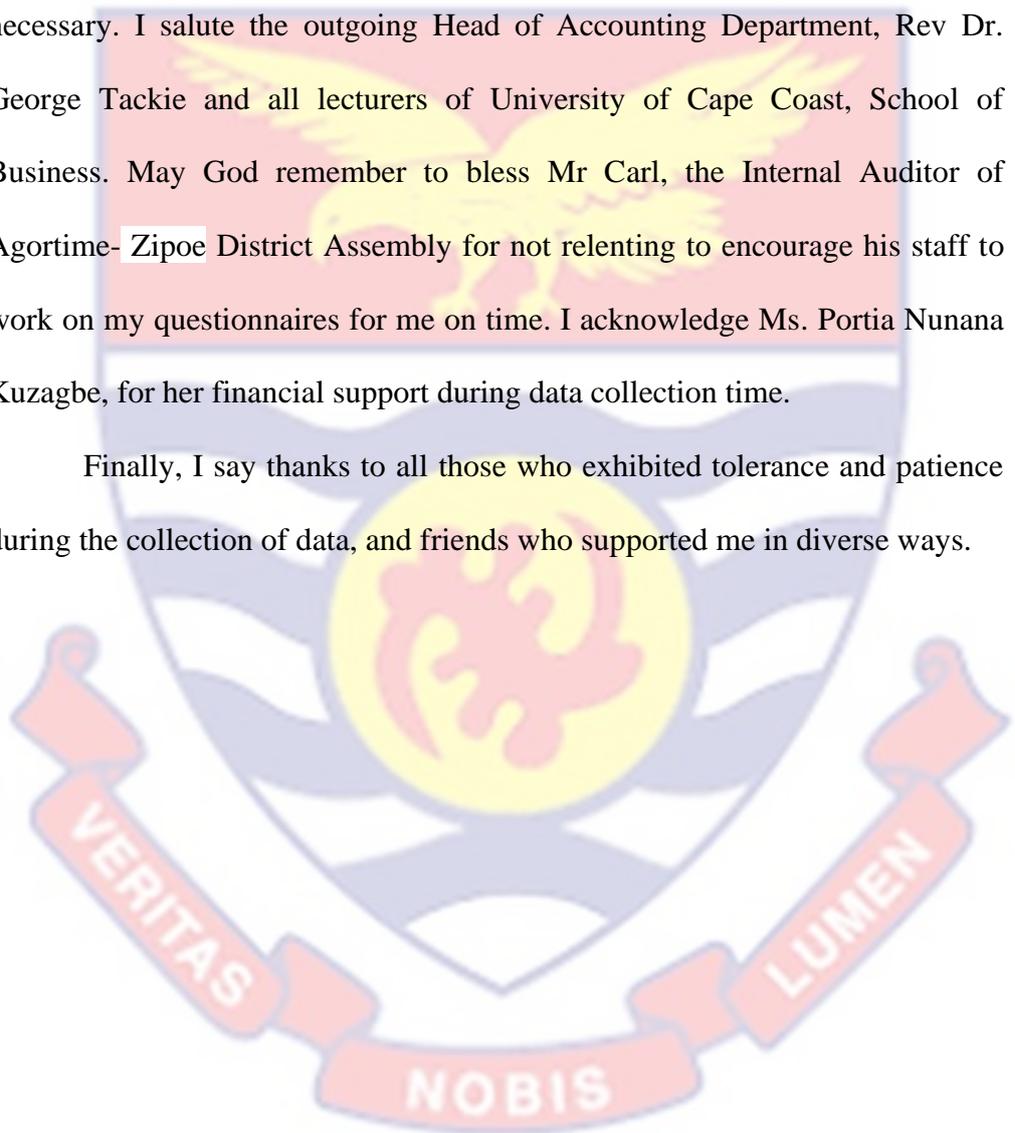
Material Weaknesses



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DEDICATION

To my parent of blessed memory, Mr P.K Attipoe Alorwu and Ms Olivia

Awovi Eyome Aformanor.



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ABBREVIATIONS

PNDC	Provisional National Defense Council
CIMA	Chartered Institute of Management Accountant
MMDAs	Metropolitan, Municipals and District Assemblies
USA	United States of America
AICP	American Institute, Certified Public Accountants
AAA	American Association of Accountant
EFI	Executive Financial Institute
IIA	Institute of Internal Audit
NAA	National Accountant Association
MDAs	Ministries, Departments and Agencies
ERM	Enterprise Wide Risk Management (ERM)
HODs	Head of Departments
SPSS	Statistical Package for Social Sciences
HND	Higher National Diploma



CHAPTER ONE

INTRODUCTION

This chapter delve into issues relevant to the development of chapter one. Such issues include the study's background, problem statement, study objectives, research questions, significance and the scope of the study, limitations and how the work is organized.

Background to the study

Internal Audit Functions has a significant contribution of strengthening internal controls hence becoming one of the key parts of corporate governance. Peurseem (2004) highlighted that internal audit functions are important because they are aggregated either in assurance or in consulting roles. Salisu (2014) pointed out that internal audit functions provide information that is useful for managerial decision making, identification of organizational strengths and weaknesses, ensuring best management of economic resources, assisting organizational social responsibility, minimization of the organizational risks of losses especially financial, ensuring value for money in terms of efficiency, effectiveness and economy for their companies (Li, 2015). Internal audit selects a scientific and rational approach to evaluate the effectiveness of risk management efforts to ensure that organizations achieve development goals faster and better.

Internal audit activities exist to solve these problems (Zou, 2019). It makes full use of appropriate auditing methods, reveals the shortcomings in the process of comprehensively and objectively reflecting the implementation results of the enterprise system, and proposes targeted solutions. According to Pickett (2003) internal auditing 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 internal audit function is expected to offer guarantee that internal controls in place are sufficient to alleviate the risks, that governance processes are helpful and competent, and organizational goals and objectives are being met (IIA, 2017)

Given recent developments of material weaknesses in organizations and government agencies, any organization can benefit from an effective internal audit function. Management's ability to fulfill its financial reporting responsibilities depends in part on the design and operating effectiveness of the controls and safeguards it has put in place over accounting and financial reporting (Center for Audit Quality, 2019). International Financial Reporting Standards (IFRS) require reporting revenue based upon the percentage of completion of a project as of the last day of the reporting year (IFRS, 2015a). When companies issue financial statements outside the United States, they must follow IFRS general accounting principles (Kumar, 2015). The IFRS accounting standards require management to assess project budget that is material to the financial statement results. Without appropriate internal controls, these estimates are susceptible to manipulation by management (Kapić & Bašić, 2013). Flood (2017) stated that if those in management want to manipulate their revenues, they might use aggressive cost estimates when accounting for contracts. Griffith, Hammersley, Kadous, and Young (2015) stated that auditors consider the accounting estimate related to revenue recognition to be a high-risk estimate.

Various regulatory bodies have highlighted the importance of internal audit to corporate governance. The Public Company Accounting Oversight Board (2004) stated that the absence of a properly functioning internal audit function might be grounds for a material weakness in internal controls over financial reporting for mature or complex companies. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis (GAO, 2011). A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Given the importance of effective internal controls, a considerable body of accounting research has analyzed antecedents and consequences of material weakness disclosures and remediation, but surprisingly little research has examined the nature of remediation efforts and their ability to adequately strengthen internal controls (Acito, Hogan & Imdieke, 2015; Rice, Weber & Wu, 2015; Rice & Weber 2012; Bedard & Graham 2011; Dhaliwal, Hogan, Trezevant & Wilkins, 2011; Feng, Li, McVay & Skaife, 2015; Schroeder & Shepardson 2015). Regulators have questioned whether companies are disclosing all existing material weaknesses (Croteau, 2013; Hanson, 2013). The presence of a material weakness, however, negatively impacts judgments on the budget for the valuation of a complex account. In addition, both material weakness and continuous audit have an impact on the overall audit budget, which is reduced only when the company has no prior year material weakness and a functioning continuous audit module is put in place.

Auditing Standard No. 5 (AS5) defines a material weakness as a deficiency, or a combination of deficiencies, where there is a reasonable possibility that a material financial statement misstatement will not be timely prevented or detected (PCAOB 2007). Accounting standards place heavy emphasis on assessing materiality and have provided significant guidance to financial statement preparers and auditors. Ge and McVay (2005) found that companies with material weaknesses are more complex, smaller, and less profitable than firms that do not disclose material weaknesses. Doyle, Ge and McVay (2007b) confirmed Ge and McVay's results and also show that firms disclosing material weaknesses are younger, growing rapidly, or undergoing restructuring. Similarly, Ashbaugh-Skaife, Collins, Kinney and LaFond (2009) document that firms reporting internal control weaknesses have more complex operations, have experienced recent changes in organizational structure, are at increased exposure to accounting risks, and have fewer resources to invest in internal control. Furthermore, Doyle et al. (2005) indicated that firms with material weaknesses have a lower earnings quality than those that do not report material weaknesses.

Material weakness especially fraud started in the olden or ancient days before our generation. It occurs when mankind tactically uses well-designed tricks to manipulate and deceive people for the purpose of acquiring properties such as financial resources, natural resources and sometimes making people to believe them with the motive of making enough wealth (Bogdan, 2005). Anytime business grows, there was demand for them to keep records. As economies started prospering, people started deceiving and manipulating fellows in view of profit-making (Bogdan, 2005). Based on these, public firms

have therefore designed control procedures for verifying and supervising how state funds are used as well as how state businesses are carried out (Bogdan, 2005).

According to Rapp (1995), auditing is the foundation every public administration. By ensuring unprejudiced and factual evaluation of whether state properties were appropriately utilized for the intended outcome, auditors assist state institutions in maintaining the basic fundamental ethical standards which in turn impose confidence to its stakeholders. Auditors in public institutions perform the following roles: oversight responsibility role ensures that public institutions are goal focused by detecting and deterring corrupt practices. Insight role help management and decision-making authority to ensure that state policies are independently probed and examined. Foresight role helps in trend analysis as well as curtailing future problems. Auditors can only achieve the above role if they investigate, carrying out both financial and performance auditing (Manual for Ministries, Departments and Agencies).

In recent times, there has been rising concern raised with regards to the need for more transparency in the control of corporate entities. This call has resulted in paying extra attention to internal auditing in light of high spate of challenges in global business. In most cases, internal auditors' performance has fall short of stakeholders' expectation and the public at large. According to Cohen, Krishnamoorthy and Wright (2004) the short of business globally lead to the demand for an effective and efficient corporate governance system that enhance proper financial reporting. Distinct from public accounting which main purpose is about financial statement, internal auditing is more of consultative rather than confirmatory in nature. According to Sawyer (1993), the internal

auditors are very essential to management of an entity because they give critical information needed by managers. Internal audit is desirable in organizations because it acts as check and balance against possible deviations from the predetermined objectives and policies (Ayamga, 2011).

The manner in which public sector entities maintain internal control and how they are held accountable has evolved to require more transparency and more accountability from these organisations that spend investor or tax payer funds. This trend has significantly impacted how management implement, monitors, and report on internal control. The Local Government Act of Ghana (as cited by Abbey, 2010) states that the statutory obligations of MMDAs among other things include formulating and executing plans, programmes and strategies for mobilising resources needed for the overall development; initiating programmes for development of basic infrastructure and providing municipal works and service; developing, improving and managing human and the environment. As part of the reforms under the Public Financial Management Reform Programme, a scoping study for the establishment of internal control audit functions in Ministries, Departments and Agencies (MDAs) and Metropolitan, Municipal and District Assemblies (MMDAs) was carried out.

With an increasing emphasis on public sector accountability, transparency and performance improvement, particularly in developing countries where various stakeholders, including civil society and the media, are becoming increasingly interested in how public funds are allocated and spent, governments must ensure that they have an efficient and effective financial cooperation control mechanism. Internal auditing helps to control public

expenditure, maintain financial responsibility, and improve public institution governance mechanisms in the public sector (Asare, 2008).

In Ghana, improper management and appropriation of public funds at the Metropolitan, Municipal and District Assemblies (MMDAs) is one of the biggest problems in the local governance and decentralization effort (Khan, 2006). Ghanaians as owners of national economic resources and as tax payers expect Metropolitan, Municipal and District Assemblies (MMDAs) to ensure that public assets entrusted in their care are well managed and protected and safeguarded against frauds, errors and other forms of irregularities so that when they are called to account for their stewardship of their organizations they will not be found wanting (Khan, 2006). Thus, internal audit has been integrated into public sector financial management in Ghana as part of efforts to improve the performance of public sector organizations. Section 16(1) of the internal Audit Agency Act, 2003 (Act 658), provides that each MMDA shall have an Internal Audit Unit (IAU) which shall constitute part of the MMDA.

MMDAs support Internal Audit Units (IAU) as independent appraisal functions to examine and evaluate the financial and operational activities of the Assemblies. “It is an important and integral part of the control system of the Assembly, which ensures that necessary controls are in place in financial and operational activities of the Assembly” (Ghana Audit Service, 2019). In recent times, most audit reports by the Internal Audit Agency find irregularities in the accounts of Metropolitan, Municipal and District Assemblies (MMDAs) including the Agotime-Ziope District Assembly in the Volta Region of Ghana. Cash and payroll irregularities as well as the failure to submit financial statements for validation among other things were found (Ghana Audit Service,

2019). These raise questions about the internal audit practices in Agotime-Ziope District Assembly. Thus, this study examined the role of internal audit function in the detection and the prevention of material weaknesses in the Agotime-Ziope District Assembly to see how they help in ensuring proper management and accountability of national financial resources.

Statement of the Problem

The most essential conditions for the survival of an organization is the ability of that organization to achieve its goal, since in private firms, owners regulate the activities of operations for been abreast of happenings. In the contrary, as there is an expansion of business, management find it very uneasy to controlling the affairs of firms. Carcello, Hermanson and Zhongxia (2011) argued that, to reduce strict reliance on the supervision of management, due to expansion of businesses, procedures, policies, norms and ethical guidance should be adhered to. It is this expansion that leads to the concept of internal audit. Ramachandran, Subramanian and Kisoka (2012) stated that, it is relevant to enhance internal audit system efficiency and also to ensure that there is complete adherence to standards for achievement of goals.

Zikmund (2004) posited that, fortified controls are necessary to reduce the perceived chances for fraud, as such, proactive procedures are thus needed to unearth fraud by using strategies like fraud assessment questioning and anonymous hotline, grant workers the opportunity to assist in stopping a fraud, and to simultaneously, intensify the idea of detection, towards the prevention of frauds, that are likely to happen in the future (Rahman, Sulaiman, Fadel & Kazemian, 2016). Thereby, creating a desirable working phenomenon that may

heighten employees' outmost good faith, to be fully out for reducing the urge or the intentions for fraud perpetrations (Zikmund, 2004).

Holt and Dezoort (2009) argued that, internal auditing plays a very essential role in corporate governance through monitoring risks which relates to the organization and ensure that every organizational procedure is effectively and efficiently controlled. Even after enacting laws governing internal audit processes, there is still a rise in cases of inefficiency in commercial banks (Mihret & Yismaw, 2011). Issues of fraudulent activities on the part of both staff and customers, irregularities in operations and noncompliance to rules and regulations have been so evident throughout all metropolitan, municipal and district assemblies.

Evidence from the extant literature has however revealed weakness in the internal audit functions of some organizations in Ghana particularly, those within the public sector. A study carried out by the World Bank in 2006 on Financial Management Practices in Ghana, revealed that there is insufficient understanding of the role of internal audit in ensuring appropriate controls in an environment where the accounting officer is formally held accountable for his/her expenditure, combined with weak capacities amongst Internal Audit Unit staffs, thus undermining the effectiveness and efficiency of the internal audit function in carrying out its roles (World Bank, 2007). Arens, Best, Shailer, and Fiedler (2006) postulates that internal control system consists of policies and procedures designed to provide management with reasonable assurance that the entity achieves its goals and objectives. As such internal control is deemed to be an important feature in the administration and management of financial resources.

Corruption Perceptions Indices (CPI) suggests a prevalence of corruption in African countries (Transparency International, 2006). Hence, there is apparent risk of senior public officers overriding internal financial controls to achieve their private gains. Public institutions are guided by rules and control measures to help them achieve their aims and objectives and also to curb corruption. This research therefore sought to understand how effective internal audit functions are in the Agotime-Ziope District Assembly, considering that issues of fraud prevention and detection are part of the internal audit function roles.

Purpose of the Study

The purpose of the study is to assess the role of internal audit function in preventing and detecting material weaknesses in the district assemblies in Ghana using Agortime- Ziope district assembly as a case study.

Research Objectives

Specifically, the study seeks to:

1. evaluate the roles of Internal Auditors in district assemblies in the detection and prevention of material weaknesses in the Agotime-Ziope District Assembly.
2. identify the benefits of Internal Auditing in the detection and prevention of material weaknesses in the Agotime-Ziope District Assembly.
3. examine the factors affecting Internal Audit Practices in the detection and prevention of material weaknesses in the Agotime-Ziope District Assembly.
4. To assess how Internal Audit affect the detection and prevention of material weaknesses in the Agotime-Ziope District Assembly.

Research Questions

1. What are the roles of Internal Auditors in district assemblies in the detection and prevention of material weaknesses in the Agotime-Ziope District Assembly?
2. What are the benefits of Internal Auditing in the detection and prevention of material weaknesses in the Agotime-Ziope District Assembly?
3. What are the factors affecting Internal Audit Practices in the detection and prevention of material weaknesses in the Agotime-Ziope District Assembly?
4. How does Internal Audit affect the detection and prevention of material weaknesses in the Agotime-Ziope District Assembly?

Significance of the Study

Since resources are limited, every organization must guarantee that its resources are used effectively and efficiently in order to maximize the advantages to its employees and society. The study would provide room for improvement by the District Assembly in carrying out their expenditure. The study would serve as a guideline for entities on how to formulate, develop, implement, monitor and evaluate effective and efficient internal control systems to ensure attainment of their objectives.

The findings will also help government and policy formulators to come up with policy framework based on the recommendations that the study establishes. Also, the outcome of the study will as well add to literature on internal audit and corporate governance at the public sector in Ghana.

Delimitation of the Study

The study is geographically limited to the Agotime-Ziope District Assembly in the Volta Region of Ghana. It is one of the newly created districts in the year 2008. The economic activities in this district include banking, trading, farming, construction among others. The findings were most relevant to the MMDAs across the country. It is also for the attention of management in general who will want to increase their internal audit to achieve organizational goals. This study consists of utilization of the data from the periods of 2016-2019.

Limitations of the Study

A limitation is a threat to the validity and reliability of a study that causes a researcher to provide findings that do not address the research question or findings that are inconsistent with the objectives of the study (Connelly, 2013). The study was limited by the data collection procedures. The researcher encountered difficulties in accessing the data for the study. Some participants initially provided inaccurate statements regarding best practices in response to certain questions. The results were based upon a specific time and therefore may not reflect future activities

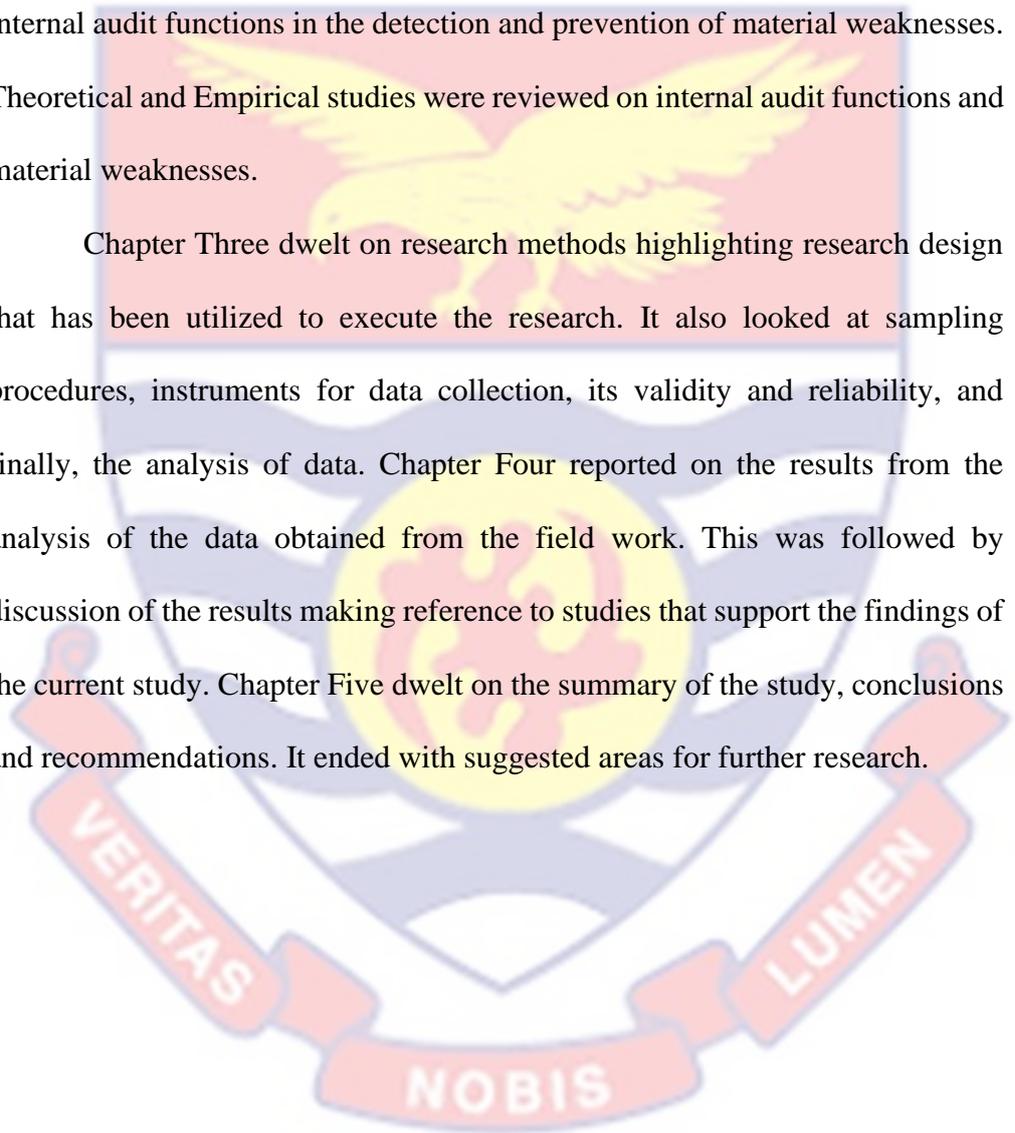
The time factor as well as financial resources cannot be excluded from the list of constrains to this study. A substantial amount of money was needed during the course of this research which is another major constrain/limitation. Despite these limitations, the study was successful in meeting its objectives.

Organization of the Study

The study has been organised into five chapters. Chapter one provided an overview of the background to the study which served as the basis for the

entire study. This was followed by statement of the problem as well as the purpose of the study, and research questions to be investigated. The chapter concluded with the significance, delimitation, limitations of the study and organization of the study. Chapter Two focused on the review of related literature. It discussed comprehensively, literature pertaining to the role of internal audit functions in the detection and prevention of material weaknesses. Theoretical and Empirical studies were reviewed on internal audit functions and material weaknesses.

Chapter Three dwelt on research methods highlighting research design that has been utilized to execute the research. It also looked at sampling procedures, instruments for data collection, its validity and reliability, and finally, the analysis of data. Chapter Four reported on the results from the analysis of the data obtained from the field work. This was followed by discussion of the results making reference to studies that support the findings of the current study. Chapter Five dwelt on the summary of the study, conclusions and recommendations. It ended with suggested areas for further research.



CHAPTER TWO

LITERATURE REVIEW

Introduction

This chapter presents a review of related literature on the role of internal audit functions in the detection and prevention of material weaknesses in Agotime-Ziope District Assembly in the Volta Region of Ghana. The literature review presents a theoretical review, an empirical review and a conceptual framework.

Theoretical Review

The study used the Institutional Theory and the Stakeholder Theory to justify the role internal audit functions play in the detection and prevention of material weaknesses in Agotime-Ziope District Assembly. The effectiveness of internal audit in organizations is mostly caused by institutional factors (Nurdiono & Gamayuni, 2018; Setyaningrum & Kuntadi, 2017; Shamki & Alhajri, 2017).

Institutional Theory

Institutional theory explains the process of institutionalizing a practice in a group or institution through a systematic, structured institutional change of behavior (Clemens & Cook, 1999). The process of institutionalization results in the uniformity of desirable practices (Dacin, Goodstein, & Scott, 2002; Oliver, 1991), and homogeneous group member or institution behavior can be explained by institutional theory (Fernando & Lawrence, 2014; Meyer & Rowan, 1977). Institutional theory explains how organizational structures and practices are shaped through changes induced by institutional pressures. Institutional theorists consider organizations as members of an organizational

field, which comprises several organizations or industries that are interrelated in some way. This interrelation leads organizations to influence others (Mihret, James & Mula 2010). DiMaggio and Powell (1983) suggest that organizations in a structured field respond to an environment that consists of other organizations responding to their environment. As a result of institutional pressures and a desire to categorize themselves with other organizations in a similar environment, organizations tend to adopt similar characteristics. DiMaggio and Powell (1983, p. 147) argue bureaucratization and other forms of homogenization emerge, out of the structuration of organizational fields.

Institutional theory is founded on the work of Max Weber (1980) on rule and legitimacy, and Scott (2008, p.151) reported that ‘Weber was among the first social theorists to call attention to the central importance of legitimacy in social life’. According to Weber, a ruler may be forced out of office if he or she lacks legitimacy, that is, when he or she lacks support from the people and when the people see a more promising alternative path to satisfying their goals than obedience to the ruler. The same logic applies to institutions and organizations, in general, and to internal audit, in particular (Scott, 2008). Legitimacy is needed in order to survive, and providing evidence of added value and effectiveness is one way to be perceived as legitimate in the eyes of major stakeholders. Providing such evidence is not an easy task for internal auditors, as they are not connected directly to the profit and loss account. The value of support functions, as they are often called in practice, is difficult to assess since meaningful measurement criteria are typically of a qualitative, rather than a quantitative, nature (Nobel, 2010).

Fogarty (1996) writes that one of the prime characteristics of institutional theory is its ability to contrast genuine achievements of organizations against what their structures may suggest to the external environment should be achieved. However, organizations may exhibit to the external environment that they are operating in line with what is expected by the external environment when, in fact, this is not the case (Meyer & Rowan, 1977). Institutional theory explains that organizations sometimes engage in decoupling, that is, actual organizational practice may differ from what the external facade of an organization suggests (Al-Twajry, Brierley & Gwilliam, 2003). Subsequently, decoupling may occur when organizations display to the business world that they are operating in a perceived manner internally, when in the view of the external environment they are in fact falling short of those expectations (Meyer & Rowan, 1977).

Institutional theory is considered suitable for internal audit research for various reasons. Firstly, the theory encompasses internal audit practices which are a part of organizational phenomena. Secondly, it helps to explain organizational phenomena without assuming a limited set of organizational goals, unlike agency and transaction cost theories, which are both predicated on the assumption of shareholder wealth maximization. Thirdly, it could support audit research in developing countries where the equity market is underdeveloped (Mihret, James & Mula, 2010). Prior research suggests that institutional theory has validity in internal audit research, both in developing countries (Al-Twajry, Brierley & Gwilliam, 2003) and developed countries (Arena, Arnaboldi & Azzone, 2006).

Lenz (2013, cited in Kukuiah, 2019) posit that internal audit is effective when it conforms to laws and other binding regulations. With the Normative force, internal audit is expected to be effective if it develops a distinct professional identity and adheres to the standards for professional performance. So, the stronger the normative force of internal auditors, the more effective the internal audit functions. Owodo (2016) also used this theory in his studies on factors affecting internal audit effectiveness in SOEs in Ghana. According to him, all the three levels of isomorphism, being coercive, normative and mimetic are key external factors that influence internal audit effectiveness. This theory is important to this study because it explains how management control structures are put in place to respond to a range of control and compliance requirements to ensure internal audit effectiveness.

Some authors (Chariri, 2017; Mennicken & Power, 2013) have mentioned that internal audit functions are socially constructed and this is consistent with the new institutional theory that holds a view that institutional environment is socially constructed. Therefore, it could be said that new institutional theory is an appropriate theory to be used by this study. The phenomenon of internal auditing has attracted the interest of a few scholars who have studied it using institutional theory. For example, the studies on the design of the internal audit department and the effectiveness of internal audit (Arena, 2013; Arena & Jeppesen, 2016). However, research on the internal auditor in public organizations in Ghana is difficult to find.

Fauzi Basyith and Foo (2017) contends that: audit is a social phenomenon. It has no purpose or value except in its practical usefulness. It is wholly utilitarian. The function has evolved in response to a perceived need of

individuals or groups in society who seek information or reassurance about the conduct or performance of others in which they have an acknowledged or legitimate interest. Moreover, Denziana (2015) in Chariri (2017, p. 109) stated that, “accounting and auditing are institutional phenomena. So, it is reasonable to assume that they derive many of their properties from the nature of firms as economic institutions. Progress in understanding accounting and auditing, at all levels of abstraction from board conception of their economic function through to understanding of the reasons for specific accounting and auditing techniques, seems likely to require a theory of the firm that views institutional phenomena as its domain...”. These arguments indicate that internal audit functions and internal audit independence should be understood within a framework of institutional theory since it is an institutional practice.

New institutional theory

A foundation belief of the new institutional theory is that the characteristics of the environment in which the organization operates determine the structure and behaviour of the organization (Meyer & Höllerer, 2014; Suddaby, Seidl, & Lê, 2013). The organizational practices are influenced by the institutional environment, such as social, political and economic, and also internal institutions including the objectives, structure and culture of the organization. Obtaining support and legitimacy from the institutional environment are the aims of organization in adapting with the environment (Meyer & Höllerer, 2014; Senge, 2013). Accordingly, organizations are pressured to change their routines by external factors, such as the given sociocultural norms, relationships among organizations and political pressures by government and other authoritative bodies (Börner & Verstegen, 2013;

Cornelissen, Durand, Fiss, Lammers, & Vaara, 2015; Fredriksson, Pallas, & Wehmeier, 2013).

This condition indicates that “organizations are embedded in larger systems of relations” which is called the “societal sector” (Scott, 2013, p. 120). This relates to the group of organizations that provide similar products, services or functions, as well as its major owners, customers, suppliers, competitors, and regulators (Scott, 2013). The system of relations is organized at a broad level, and organizations are related in non-local and vertical hierarchies (Fredriksson *et al.*, 2013). The new institutional theory further claims that organizations are designed to be obedient to procedures and practices, which are perceived as socially accepted rationalizations, in terms of how to structure the organization operations (Meyer & Höllerer, 2014).

Based on the above discussion, institutional theory is deemed to be the most relevant for this study and, more specifically, it is considered to be appropriate for internal audit research. Marxist theory explains that the demand for internal audit could support institutional theory’s implication for internal audit practice.

Stakeholder Theory

Edward Freeman advanced the Stakeholder Theory in 1984. Stakeholder theory has attracted widespread support because of its simplicity and logical application even though it is not a fully developed theory (Emerson, Alves & Raposo, 2011). No organization exists in isolation, rather, every organization (whether profit making or not-for-profit) exists for various categories of persons (stakeholders) who have interest in the organization. Stakeholder theory is, therefore, based on the assumption that the responsibility of the business is to

take into consideration the interests of other stakeholders, in addition to the shareholders, who impact the firm.

Stakeholders are those groups who have a stake in or claim on the firm. Stakeholders of an organization include management, employees, customers, suppliers, debt providers, government and the local community (the environment). The idea behind the stakeholder theory is that these group of persons influence the operations of the organization and as such, their influence should be considered in the decision-making process and the conduct of the operations of the organization (Tse, 2011). Freeman and Reed (1983) identified two sets of stakeholders in an organization, those groups who are vital to the success and survival of the organization and those groups who affect or are affected by the organization. Emerson, Alves and Raposo (2011) supported this view when they pointed out that stakeholders could be primary or secondary; primary stakeholders are those that are contractually involved with the organization such as employees, customers, and suppliers while secondary stakeholders are those that have no formal contracts with the organization such as governments and the local community.

For the internal audit function to remain relevant, value must be added to its stakeholders by understanding what they perceive to be drivers of internal audit effectiveness. In this regard, it is essential for the internal audit profession to identify to whom it remains accountable and take into consideration their requirements and beliefs (Bolger, 2011). The internal audit function is a vital component of the corporate governance structure of an organisation. Cohen et al. (2004) put forward a model of corporate governance which identifies the IAF along with the audit committee, senior management and the external auditor as

being internal governance stakeholders. In fulfilling its role, the internal audit function exerts great influence over senior management's duties (Verschoor 2009 cited in Trotman 2013).

Numerous studies (Deloitte, 2010; Hoos, Kochetova, and D'arcy, 2013; Roussy 2013 cited in Erasmus, Coetzee 2018) indicate that the key stakeholders of the internal audit functions, particularly, the audit committee and senior management have conflicting expectations and subsequently overlapping demands. Friedman (2006) argues that the association itself should be regarded as a shareholders community, and its goal should be to address its priorities, needs and viewpoints. This management of stakeholders is thought to be carried out by the managers of a company. Managers should manage the company for its stakeholders, on the one hand, to ensure their rights and participation in decision-making. The active management of the environment, relationships and the promotion of shared interests to develop business strategies is of great concern to stakeholders (Friedman & Miles, 2002). A wide range of issues, such as labor conditions, environmental issues or social responsibility, might be included in stakeholder interests, and may be in conflict with the interests of a company (Friedman & Miles, 2006). Waddock (2001) argues in a related discussion on corporate responsibility and citizenship that becoming a good corporate citizen means defining, and achieving, accountable operational practices fully integrated into corporate strategies, planning, management and decision-making. It is a philosophy in corporate and business ethics which encompasses principles and ideals of institutional leadership. According to the traditional view of the business, the investors become owners of the company and the corporation has a contractual fiduciary duty to put their interests first

and to increase value to them. Stakeholder theory claims that other entities, including workers, consumers, vendors, societies, governmental bodies, political groups, trade associations or trade unions, are concerned.

Jensen (2001) suggests that the stakeholder hypothesis solves the problems created by several targets as this concept is essential to our research and offers an understanding of how the company works. It states that it must create value for customers, suppliers, employees, communities and financiers, shareholders, banks and others with the money if any organization is successful. The Stakeholder Theory states that each and every stakeholder in a company or organization is equal and treated in the same way, its priorities need to be coordinated and the role of a director or businessman is to decide whether consumers, vendors, societies, staff and financiers are involved in that path. One of the latest implementations of Stakeholders Theory is the risk management of organizations which attempts to understand the mutual effects of different threats systematically in the interest of the parties concerned (Beasley, Chen, Nunez & Wright, 2006). A stakeholder approach can help managers, analyzing how the company fits into their larger environment, how its standard operating procedures affect stakeholders in the company (employees, management, shareholders) and immediately beyond the company (customers, suppliers, financiers) from an analytical standpoint.

The Stakeholder Theory in a normative sense strongly suggests that overlooking those other stakeholders is (a) unwise or untrue and/or (b) ethically unjustified. The Stakeholder Theory thus engages in a wider corporate and ethical debate: is an ethical organization longer to gain than a corporation that only looks at the 'bottom line' in any given quarter or year? Those who argue

that corporate managers were unwise and imprudent by dismissing numerous non-stockholder groups will reply "yes." Others would say that avoiding these other constituents is not ethically justified, regardless of the corporation's short-term and long-term performance. Premised on the empirical frameworks to the influence of the internal control process on firm performance this analysis suggested the following graphical interpretation, which is supposed to clarify a significant amount of the variation in firm performance. Internal control mechanisms, like internal auditing, are mainly intended to improve the quality of organizational results, whether directly or indirectly, by making information sources in an organization increasingly accountable (Jensen, 2003). Internal monitoring therefore has the much broader aim of providing an independent assessment of the quality of the management performance when carrying out assigned revenue responsibilities in order to achieve an organizational level of control problems associated with lower revenue, which explores the link between disclosure of material weakness and fraud, revenue management or restatement internal controls (Beeler, Hunton & Wier, 1999).

Good internal control of an organization quality includes a frequent examination of the accuracy and credibility of financial and administrative records, a review of the measures used to protect property, an evaluation of employee adherence with management practices, protocols and related laws and regulations, and an assessment of the efficiency and efficacy of leadership. Many organizations no longer develop an internal control structure as a regulatory requirement, but also as it helps to ensure that all administrative operations are carried out properly (Kenyon & Tilton, 2006). Therefore, organizations find it a responsibility to prepare, inform and sensitize their

workers on how to use such internal control mechanisms as their success relies on the expertise and efficiency of the individuals who use them. All of these control actions ensure that any risks that may affect the ability of the company to achieve its objectives are adequately avoided and should occur at all levels and in all organizational functions (Doyle, Ge & Mcvay, 2007).

Conceptual Review

Auditing is a management technique that is been recognized to provide management with a general situation regarding resources utilization and other services within the organization (Botha & Boon, 2003). Auditing can also be seen as an independent examination of accounting records with a view to ascertain their accuracy and their compliance with relevant rules and regulations and also with the organizational policies and procedures. Internal audit is been mentioned as one of the classification of audit (Akpata, 2001). It's the aim of internal auditing to improve organizational efficiency and effectiveness (Cohen & Sayag, 2010). As such, the internal audit serve as an independent appraisal activity which is been established within an organization with the aim to provide service to the organization.

With the introduction of the revised Combined Code and the Smith Guidance, audit committees are expected to take a more focused oversight role in respect of risk management and internal control. They need assurance from management and independently that good internal controls are in place and operating effectively. Internal audit can contribute to independent assurance on the overall risk management, control and corporate governance processes. It can also be a useful catalyst for change and improvement within the organization. Having an internal audit function is not mandatory for some organizations,

although it is for certain public sector organizations (The Internal Audit Function, 2014).

In this section, the study presents explanation to the Concept of internal auditing; Internal audit function as monitoring control systems mechanisms; The role of internal audit function in risk management; The concept of Internal Audit Function; Effectiveness of internal audit function; Independence and objectivity of internal audit; Material weakness reporting; Financial statement material weaknesses; Internal audit reports; Internal audit reporting relationships; and Benefits of internal auditing.

The Concept of Internal Auditing

Internal audit is often part of the organization which aims to evaluate and improve the effectiveness of risk management, control, and governance processes (IIA, 2012, Sec. 2100) whereas, external audit is not part of the organization, but are engaged by it, and aims to provide an independent opinion on the overall fairness of the annual financial statements. Audit dates back to the Mesopotamian civilization around 4000-3500 B.C. (Ramamoorti, 2003; Sawyer, 1996). Formal record-keeping systems were introduced by organized businesses and governments, to allay their concerns about incorrect accounting of receipts and disbursements and collecting taxes (Ramamoorti, 2003). The need for and indications of audits can be traced back to, among others, public finance systems in Babylonia, Greece, the Roman Empire and the City States of Italy, all of which developed a detailed system of checks and counterchecks to prevent bookkeeping errors and inaccuracies, as well as fraud and corruption (Ramamoorti, 2003).

Historically, the internal audit function has been considered as a monitoring function to aid management in controls. Morgan (1980), viewed internal audit as an important aspect of organisational control and identified the aspiration of internal auditors to move from the controller role to controller-advisor role as a part of their profession (internal auditing). He noted that this shift "can only be successful achieved at the cost of surrendering certain elements of the controllership role and some claims to formal authority which go along with it" (Morgan 1980, cited in Spira and Page 2003 p. 653). Bou-Raad (2000) argued that the main objective of internal auditing according to the first definition is to advise the members of the organisation how to discharge their responsibilities.

The Institute of Internal Auditors defines internal auditing as "an independent, objective assurance and consulting activity designed to add value and improve an organization's operations" (Reding et al. 2009, p.1-2). Internal auditors help organizations achieve business objectives by improving the effectiveness of risk management, control, and governance processes, and are a valuable source of information for audit committees, external auditors, and managers (Gramling, Maletta, Schneider & Church 2004). Internal auditors serve as the "eyes and ears" of the audit committee and are able to deter management misconduct by effectively being able to detect management misconduct (AICPA 2005): "Fear of getting caught is always a strong deterrent" (AICPA 2008, 30). Internal auditors test internal controls throughout the organization and focus their efforts on areas with the highest risk

The main concern of internal auditors at that time was to evaluate the correctness of financial transactions. McNamee and McNamee (1995)

explained that due to the growth in size and complexity of business organizations during the Industrial Age the need for an internal audit function increased. However, they discussed the changing role of internal auditing since the Second World War from the validation of transactions to systems auditing. They concluded that the role of internal auditors became a primary agent for transformation in helping the users of the system to design test and monitor their own controls. Besides issuing the Statement of Responsibilities in 1947, Ratliff et al (1988) explained that the Institute of Internal Auditors has taken four important steps for promoting a high degree of professionalism among internal auditors and their departments. The Institute has adopted since its formation: a Statement of Responsibilities, Standard of Professional Practice, a Code of Ethics and a Programme of Auditor Certification. All these actions were considered to be the most important developments since that time.

Schneider (2003) argued that the bankruptcies, financial irregularities and fraudulent activities that occurred in Enron, WorldCom and other firms have increased the need for corporate monitoring. He concluded that external audit failures related to these events increase the role of internal auditing in corporate monitoring. Al-Twajjiry (2004) studied the nature and practice of the internal audit function in Saudi Arabia, by examining in particular if internal auditing adds value to the Saudi Arabian corporate sector. The study found that the overall results suggested that internal auditing failed to fulfil its potential to add value to Saudi Arabians companies.

Internal audit aims to assist all company leaders (management) in carrying out their responsibilities by analyzing assessments, suggestions, and comments on the activities they inspect (Agoes, 2017, p.222). The scope of the

internal inspection must include testing and evaluation of the competence and effectiveness of the organization's internal control system and the quality of the implementation of the responsibilities given, including the reliability of the information, compliance with legal policies and procedures, protection of assets, use of resources economically and efficiently and achieving goals (Tugiman, 2014, p.17). According to The Institute of Internal Auditors (IIA) in Redding, Sobel, and dan Michael (2013, p.19), internal audit measurements based on performance standards consist of the following:

- a. Planning: The head of internal audit must prepare a risk-based plan (risk-based plan) to set priorities for the activities of the internal audit activity according to the organization's objectives.
- b. Communication and Approval: The internal audit commander communicates the designed internal audit movement and reserve obligations, including critical interim replacements, superior supervision, and the board for evaluation and approval. The head of internal audit must likewise communicate the consequence of resource restrictions.
- c. Resource Management: The role of the chief audit executive is to guarantee that possible audit resources can be used appropriately and adequately to fulfill the agreed project.
- d. Policies and Procedures: The head of the internal audit must set strategies and schemes to direct/guide internal audit activities.
- e. Coordination: The head of internal audit must share information and coordinate its activities with all other external and internal insurance and

insurance service providers, to ensure that the scope of assignment is appropriate and minimize duplication of activities.

- f. Report to Senior Management and the Board: The head of internal audit must periodically report the objectives, authorities, responsibilities, and performance of the internal audit activity to his plan. The report must also include significant risks faced, problems with control, risks of fraud, governance problems, and other elements ordered or requested by senior executives and the jury.
- g. External Service Providers and Organizational Responsibility for Internal Audit: Suppose there are external service providers who provide internal audit services in the organization's internal audit activities. In that case, the service provider must provide an understanding that the organization has the responsibility to maintain effective internal audit activities.

Internal Audit Function as Monitoring Control Systems Mechanisms

Internal audit activities must estimate and commit to enhancing governance, risk management, and control methods using a well-organized and orderly approach. Internal auditors played an important role in evaluating the effectiveness of internal control systems. According to their organizational status and authority in an organization, an internal audit function may play a significant role in monitoring an organization's activities. Regarding the internal auditor's role in monitoring the internal control system, Chambers, Selim, and Vinten (1990) explained that the internal control system plays an important role in the internal audit function since the internal auditors are considered as experts in management controls.

However, Steward and Kent (2006) linked the existence of a strong internal control system and the use of the internal audit function as a review and monitoring mechanism. The COSO Report (1992) highlighted the responsibilities of the board of directors and management in establishing and maintaining a strong internal control system. The report relies on internal auditors to provide reasonable assurance regarding the adequacy and effectiveness of the organization's internal control in achieving the organizational goals. The revised Internal Control-Integrated Framework, COSO Report (2003) focused on the role of internal auditors in evaluating the effectiveness of the internal control system by stating that "internal auditors play an important role in evaluating the effectiveness of internal control systems, and contribute to ongoing effectiveness. Because of the organisational position and authority in an entity, an internal audit function often plays a significant monitoring role" (COSO, 2003, p.4).

Rezaee (1995) viewed the role of internal auditors in the context of the COSO Report that the internal auditor should assist and participate with management in: Defining the internal control and related objectives; establishing internal control and its components; determining appropriate evaluation tools in measuring adequacy and effectiveness of internal control. Goodwin and Seow (2002) conducted research by examining the perceptions of auditors and directors in Singapore regarding the impact of certain governance mechanisms that prevent and detect control weaknesses, financial statements errors and fraud. The results of the study indicated that auditors and directors believe that the existence of an internal audit function and strict enforcement of a proper code of conduct have a significant influence on the organization's

ability to strengthen its internal controls, prevent and detect fraud and financial statement errors and enhance audit effectiveness.

The professional literature, in terms of the auditing standards, has contributed to the role of internal auditors in monitoring and evaluating the internal control system. In December 1994, the Auditing Practices Board issued the Audit Agenda. This document explained the role of internal auditors in different matters, including producing reports to directors or officers on the appropriateness and adequacy of systems of controls (Para. 4.36, audit agenda Dec. 1994). Furthermore, the IIA issued the Statement of Internal Auditing Standards (SIAS) No.1, "Control-Concept and Responsibilities". The statement highlighted the role of internal auditors in assisting their organizations in discharging their responsibilities by providing them with information regarding the internal controls.

Moreover, the revised statement of responsibilities of internal auditing (IIA 2000, p.3) as a part of the standards framework stated that "the objective of internal auditing is to assist all members of management in the effective discharge of their responsibilities by furnishing them with analysis, appraisal, recommendations and pertinent comments concerning the activities reviewed. The internal auditor is concerned with any phase of business activity where he can be of service to management. This involves going beyond accounting and financial records to obtain a full understanding of the operations under review". Based on the above, it can be concluded that internal auditors can play an important role in monitoring the internal control system and assist management to discharge its responsibilities

The Role of Internal Audit Function in Risk Management

Selim and McNamee (1999a, p.148) defined risk as "a concept used to express uncertainty about events and/or outcomes that could have a material effect on the goals and objectives of the organization". The International Standards for the Professional Practice of Internal Auditing, the Performance Standard 2100-3 (2003) defined the risk management process as the identification and evaluation of potential risks that might affect the achievement of the objectives of an organization and determination of adequate corrective actions. The new definition of internal auditing increased the focus on the issue of risk management. In this aspect, Chambers (2000) noted the increased focus on risk management during the last five years in the professional journals and newsletters related to internal auditing, in terms of increasing the references to risk and in the titles of articles there in.

Regarding the role of internal auditing, it can be argued that internal auditing moved from a control-based approach to risk management and adding value by providing assurance that these two factors are being understood and managed. The role of the internal auditor is to help their organizations in identifying and evaluating risks (Walker, Shenkir & Barton, 2003). In line with Walker et al's 2003 argument, Spira and Page (2003) argued that internal auditors are positively playing an important role to embrace the opportunity to participate in achieving the corporate goals through their contribution in risk management. Accordingly, recently published reports on corporate governance assume that risk can be identified, quantified and strategically managed. They identified that internal auditors as experts in risk management and internal controls issues, can play an important role within their organizations.

Leung, Cooper and Robertson (2004) conducted a study to examine the role of internal auditors in corporate governance in Australian companies. The study found that the majority of internal auditors (74 %) considered risk management as an important internal audit objective, while (91 %) believed the monitoring of internal controls to be one of their objectives. However, the majority of the respondents used to report regularly in detail on any risk issue and internal control system. To conclude, risk management is one of the key issues of corporate governance. As a result, management is responsible for this issue, internal auditors also need to understand their new role according to recent changes after the issuing of the new definition.

The Concept of Internal Audit Function

The concept internal audit according to IIA (2003) is an ultimate trust with the fundamental reason of examining or advancing the efficacy or potency of reducing risk and administrative policies. The definition is silent on the kind of assurance (reasonable or absolute assurance) that internal audit seeks to attain and also how to improve on risk management. It should spell out straight forward the assurance and the risk management procedures and even the kind of risks (demand or financial risks etc.) to be managed. Institute of Internal Auditor Research Foundation (2008) suggested that, an internal auditor is that personality who looks forward by comprehending the system of business and also enabling management to efficiently operate by having the set organizational goal in mind. The phrase “forward looking personality” suggests that, even if there is an amendment to the Act regulating local government practices, the internal auditor is not ready to adjust to the change. The institutes never reveal whether or not the internal auditors’ understanding of business is

with respect to the law or act regulating MMDAs or the way he/she uses the natural given talent.

Saud and Marchand (2012) define internal audit as objective independent assurance and consultancy processes or services formulated to ensuring that value is added and organization's operations are facilitated. This definition did not state the processes of consultation, who to consult, why to consult and also the kind of value to be added to the firm's operation. Rajaei (2009) noted that, internal audit helps to reducing inefficiencies in the management of limited economic resources. Rajaei's definition did not capture the method that the internal auditors adopt in reducing the inefficiencies and also, the kind of scarce resources used is not mentioned. Internal Audit therefore helps in evaluating a business internal safeguard and its administrative accounting practices by ensuring adherence to the policies that ensures convenient data collection that facilitate financial statement communication.

Effectiveness of Internal Audit Function

Effectiveness is the ability of an organization to account successfully for its output and operations to its various internal and external constituencies (Gaertner & Ramnaravan, 1983). Effectiveness can also be defined as the achievement of goals and objectives of an activity through the factor measures provided (Ditternhofer, 2001). Internal audit effectiveness can also be measured by looking at how the function is achieving organizational goals and objectives. Therefore, for an internal audit function to achieve those objectives, there are factors that influence the achievement of the set objectives (Mihret, 2011). In addition, IAF is effective when it provides the required service expected from the activity (Arena & Azzone, 2009; Mihret & Yismaw, 2007). As indicated by

Karapetrovic and Willborn (2000), effectiveness in audit is based much on the capability of an auditor to carry out an audit free of errors, readiness to function when needed, and identify suitable set of objectives.

According to Misganaw (2016), Internal audit (IA) effectiveness has not been studied yet extensively. There is a limitation on researches conducted concerning IAF effectiveness. There is such a limitation in literature of which he identified lack of sufficient attention given to the theories which could be used to design the conceptual framework of IA effectiveness (Endaya & Hanefah, 2013). Other academic studies indicated (Misganaw, 2016; Al-Twaijry, Brierley, & William, 2004; Arena & Azzone, 2009; Mihret & Yismaw, 2011; Wubishet & Dereje, 2014; Abu-Azza, 2012; Ramachandran, Subramanian, & Kisoka, 2012), have advocated further research and the need for a more comprehensive study on the issue of IA effectiveness. But there is no any generally accepted guide for this purpose (Misganaw, 2016).

Some researchers have used different attributes that are perceived to be relevant in identifying the factors determining effectiveness of IA ranging from publicly owned firms to privately owned firms (Misganaw, 2016). While other Researchers studied on the issue of IA effectiveness had used different approaches to investigate its effectiveness. But there is no any generally accepted guide for this purpose. For instance, (Al-Twaijry, Brierley, & William, 2004) and (Yee, Sujana, James, & Leung, 2008) used SPPIA (which is established by IIA) as a guideline; (Arena & Azzone, 2009; Endaya & Hanefah, 2013; Mihret & Yismaw, 2011; Abu-Azza, 2012) developed their own models to investigate and determine IA effectiveness.

Like in the study done by Mihret & Yismaw (2011) they tried to make their own model by targeting on factors which has an impact on the effectiveness of IAF such as IA quality, management support, organizational support, attributes of the clients, and the interplay among them. Another view relates to internal auditing as a value adding function to an organization as indicated in the study by (Arena & Azzone, 2009). According to Arena and Azzone (2009), IAF effectiveness is an activity which can be measured through characteristics of IAF team, the audit processes and activities, and the organizational links. This model also used by (Ramachandran, Subramanian, & Kisoka, 2012) for measuring the effectiveness of IA in Tanzanian Commercial Banks.

Ramachandran, Subramanian, and Kisoka (2012) focused on the effectiveness of IA in Tanzanian Commercial Banks. They considered competencies, resources, involvement of internal auditors in risk management and level of interaction between IAF and audit committee. The result of the study showed positive relationship between IA resources and competencies and IA effectiveness, a significant relationship between level of interaction between the internal auditors with audit committee and IA effectiveness, and no significant relationship between IA activities and IA effectiveness. A study conducted by Drogalas and Konstantinos (2015) on factors determining IA effectiveness in Greece business environment. The researchers addressed the issue of IA effectiveness by identifying four factors of IA, namely, competence of IA team; independence of IA; IA quality; and management support. The results showed that there is indeed a correlation between the factors mentioned and effectiveness of an internal audit function.

Abu Azza (2012) also conducted a study on the perceived effectiveness of the IA in Libya. The study targeted Libyan public enterprises. It addressed the issue of IA effectiveness by identifying seven qualitative factors considered to be important for effective IA, namely, independence, competence, scope of internal auditing work, performance of internal auditing work, coordination and co-operation between the internal and external auditor, management support, and awareness of the benefits of effective internal auditing within organizations. The study concluded that IA in Libyan public enterprises has not perceived as being effective.

Independence and Objectivity of Internal Audit

Reding & Sobel, (2009), states that an independent and objective internal audit function is integral to the effectiveness of the IAF. Reding & Sobel, (2009) defined objectivity as an unbiased mental attitude that allows internal auditors to perform engagements in such a manner that they have an honest belief in their work product and that no significant quality compromises are made. Objectivity requires internal auditors not to subordinate their judgment on audit matters on audit matters to that of others. To ensure that the function is as objective as possible, the internal auditors should not involve themselves in day-to-day operations, make management decisions, or find themselves in any situation that that has a potential to compromise their objectivity.

However, independence is defined as the organizational status of the internal audit function. Furthermore, the standards define independence as the freedom from conditions that threaten the ability of the internal audit activity to carry out internal audit responsibilities in an unbiased manner “for an internal

audit function to be independent (The Institute of Internal Auditors, 2013). It has to fulfill the following according to the standards

- i. The chief audit executive must report functionally to the board
- ii. The audit function should not be under any department or function within the organization
- iii. Approval of and appointment of CAE should be done by the board
- iv. The approval of audit charter should be done by the board
- v. Audit plan budget should also be approved by the board
- vi. Remuneration of CAE should be done by the board not management.

The IPPF issues a number of standards that are related to independency of the internal audit function. Attribute standard 1130, for example states the need to disclose any impairment either in fact or appearance to appropriate parties. Impairment to this extent may include, but is not limited to, personal conflict of interest, scope limitations, and restrictions on access to records, personnel, and properties, and resources limitations such as funding. According to (The Institute of Internal Auditors, 2013) the determination of the appropriate parties to which the details of an impairment to independence or objectivity must be disclosed is dependent upon the expectations of the internal audit activity's and the chief audit executive's responsibilities to senior management and the board as described in the Internal Audit Charter, as well as the nature of the impairment.

Material Weakness Reporting

A material weakness is a deficiency, or combination of deficiencies, that result in a reasonable possibility that a company's controls will fail to prevent or detect a material misstatement of an account balance or disclosure (AS No.

5, PCAOB 2007a).¹ Section 404 of SOX mandates that managers evaluate internal control over financial reporting (ICFR) and present the results of their evaluation in financial statements filed on Form 10-K and Form 10-Q. The regulation, which became effective for accelerated filers for year-end dates beginning November 15, 2004, also requires external auditors to annually assess and state an opinion on ICFR. Accordingly, both management and external auditors are responsible for ensuring that material weaknesses are detected and disclosed under Section 404. Prior to the implementation of Section 404, Section 302 required management to evaluate and report on the effectiveness of ICFR; however, the external auditor was not required to opine on ICFR (U.S. Congress 2002).

For a material weakness to be reported, it must exist, it must be detected, and it must be disclosed (Ashbaugh-Skaife, Collins, Kinney & LaFond, 2009). At the end of the year, internal control deficiencies (ICDs) that have not been remediated are classified by severity and aggregated to determine whether they constitute a material weakness and, hence, must be publicly disclosed. The PCAOB and SEC direct external auditors and managers to evaluate the severity of each control deficiency to determine whether the deficiencies, individually or in combination, constitute a material weakness as of the date of management's assessment (AS No. 5, PCAOB 2007a). Severity depends upon whether there is a reasonable possibility that the company's controls will fail to prevent or detect a misstatement and the magnitude of the potential misstatement. Multiple deficiencies that affect the same account or disclosure may, in combination, constitute a material weakness, even though individually the deficiencies are less severe.

Gramling et al. (2004, p.196) suggest that management's increased accountability for ICFR under SOX implies an expanded role for the IAF. Consistent with this reasoning, the IIA provides specific guidance regarding how the IAF can support management's SOX compliance (IIA 2004). The IIA advocates that the IAF independently evaluate management's testing and assessment processes, and management's basis for their assertions regarding the adequacy of internal controls. If control gaps are identified, then internal auditing should assess management's plans for correcting them and perform follow-up reviews. The IAF can also perform effectiveness testing for reliance by external auditors. Finally, the IIA advocates that the IAF act as coordinator between management and the external auditors and ensure that the results of ongoing internal audit activities are disclosed.

Financial Statement Material Weaknesses

Financial statements are significant to any user who wants to make an economic decision. Therefore, management should ensure that the presentation of the company's financial statements does not include any material weakness that misleads their internal or external users and to avoid any financial statements' restatement. Chung and McCracken (2014) discussed in their paper the restatement process, its interaction among the auditors, CFOs, CEOs, audit committee and regulators and its impact on the relationship between these parties. Jahmani, Ansari, and Dowling (2014) identified new accounting standards, accounting errors, and lack of management integrity as the primary reasons for the restatement of financial statements. The management usually do restatement of the company's financial statements for several reasons, to name a few, misapplication of the implementation of the conversion from the General

Accepted Accounting Standards (GAAP) to the International Financial Reporting Standards (IFRS) and vice versa and incompetence of the employees leading to accounting errors, and lack of management's integrity (Chung & McCracken, 2014). Moreover, Chung and McCracken found no research conducted so far to describe the role of the various parties concerned in the restatement process.

Jahmani et al. (2014) found that a high percentage of companies that have weakness in internal control have restated their financial statements. Chung and McCracken (2014) found in their research that restatements indicate ineffective audit effort or underestimated audit risk during the planning process in the years leading up to the restatement. Materiality implies any misstatement that has an adverse effect on the financial statements and its result may mislead the users of the financial statements to take an economic decision (Chung & McCracken, 2014).

External auditors should not provide an unqualified opinion if material weaknesses are detected by them and not rectified by the management. Brant, Steven, and Christopher (2014) outlined that both US and international standards have proposed changes to the auditors' report and discussed the reports' impact on any potential investor. Brant et al. (2014) discussed in their paper the new adjustment proposed to the standard audit report, which includes a requirement to insert a critical audit matter paragraph. Moreover, Brant et al. discussed the reaction of the users and especially the non-professional investors when they read the auditor's report with critical audit matter paragraph and its influence on the decision the investors will take to invest in the intended investee. Brant et al. found that the investors are more sensitive to change their

decision when they receive a report that includes a critical audit matter other than the investors who receive a standard audit report with no qualification.

Donelson, Ege, and McInnis (2015) found that the issuance of an adverse opinion by the auditor on the internal control material weakness indicates a high possibility that managers are committing unrevealed fraud. Hence, Donelson et al. revealed that the type of internal control weakness is significant from prediction fraud standpoint. Brant et al. (2014) made no mention of the positive issues in regards to the critical audit matter and focused mainly on the negative points of incorporating critical audit matter in the audit report. Most of the investors are nonprofessional; thus, they may find difficulties to readily understand the auditor's opinion in the audit report. Brant et al. should focus on the objective of the audit report, and afterward, they could mitigate the subjectivity raised for integrating the critical audit matter. The main objective of the audit report is to provide an objective assessment of the fair presentation of financial statements. Also, Hajiha and Bazaz (2016) used the external auditors' reports to extract the internal control material weaknesses and afterward categorized them into two groups of account and firm level.

Internal Audit Reports

While there are mandatory corporate disclosures about the audit committee, the external auditor, and management, there are currently no mandated disclosures about a company's internal audit function. The audit committee report may be an indirect source of voluntary disclosures about internal audit. However, Carcello et al. (2002) find that the vast majority of a sample of these disclosures contains no mention of the internal audit function. Given the critical role of internal audit in corporate governance and benefits of

reduced information asymmetry as a result of governance transparency, researchers have begun to explore the benefits of increased internal audit transparency (Archambeault, DeZoort & Holt, 2008; Holt & DeZoort 2009; Lapidés et al. 2007).

Holt and DeZoort (2009) provide the first empirical evidence on the potential usefulness of an IAR in investor judgment and decision-making. They manipulated company fraud risk and the presence of a descriptive IAR detailing the composition, responsibilities and activities of an effective internal audit function in an experiment administered to MBA students acting as proxies for nonprofessional investors. They find that IAR disclosure is positively related to investor confidence in company oversight effectiveness and financial reporting reliability. These disclosure effects are greater for companies with high fraud risk. Furthermore, their results indicate that confidence in oversight effectiveness and financial reporting reliability mediates the relation between the disclosure of an IAR and the likelihood of the investor to recommend the purchase of the company's stock. The current study will extend Holt and DeZoort (2009) by assessing the effects of two important internal audit characteristics on investor perceptions of disclosure credibility: (1) what kind of activities does the function perform (i.e., internal audit role), and (2) to whom does the function report (i.e., internal audit reporting relationship).

The role of internal audit has changed over time (Bailey, Gramling & Ramamoorti, 2003). While the role was traditionally assurance-related in nature, the IIA officially adopted a new definition of internal audit in 1999 in an attempt to focus on a more value-added approach of the function (e.g., Bou-Raad, 2000; Krogstad, Ridley & Rittenberg, 1999). Under the new definition,

the IIA (2007b) describes the internal audit function as “an independent, objective assurance and consulting activity designed to add value and improve an organization’s operations.” Although the work performed by internal audit can encompass a wide variety of activities, those activities can generally be classified as either assurance or consulting services (Bailey et al. 2003). Assurance services provide objective examinations and assessments of risk management, control, or governance processes within a company. Examples of assurance services include financial audits, compliance audits, or system security audits.

Consulting services are services that are advisory in nature in which the customer requesting the service agrees upon the scope and nature of the service. Examples of consulting services include training programs, operational advice, or providing counsel (Reding, Sobel, Anderson, Head, Ramamoorti & Salamasick, 2007). After the passage of SOX, many internal audit departments were called upon to shift their role from focusing on traditional assurance services to providing consulting services related to the new compliance regulations (e.g., Krell 2005; Redmond, Reiling & Miller, 2008). For example, the internal audit at Chevron refocused its efforts to supply controls documentation and training (Redmond et al. 2008).

Additionally, an internal audit function whose activities are primarily consulting-related may be perceived as lacking objectivity. During consulting projects, internal auditors often work closely with management (Breakspear, 1998). These working relationships may lead to perceptions of objectivity impairments for the internal auditor as the internal auditors may be hesitant to report adverse findings (Greenspan, Burns & Lightie, 1994). Given the lack of

audit evidence and the potential for objectivity impairment resulting from an internal audit function whose activities are primarily consulting-related, investor perceptions of disclosure credibility of financial statement information should be higher for internal audit functions whose work is primarily assurance-related.

Internal Audit Reporting Relationships

The IIA's Organizational Independence standard states that a company's CAE should report to a level that ensures the function can complete its duties (IIA, 2007a). An appropriate reporting relationship is essential to ensuring that internal audit activities are not unduly influenced by management. However, there has been considerable debate (e.g., SEC, 2003c; James, 2003; Johnson, 2006) about what reporting relationship best achieves the appropriate level of internal audit independence. The SEC (2003b) asked for comments regarding whether the responsibility for personnel decisions and oversight of the internal audit function should be placed directly with or under the supervision of the audit committee. The SEC chose not to act on the matter after receiving mixed comments from a variety of groups. The New York State Bar Association's response to the proposal noted that prior to the passage of the rule, the SEC should conduct research to determine potential problems associated with various reporting relationships (SEC, 2003c).

Strategic reporting of the internal audit function involves the governance activities of the internal audit function such as charter approval, hiring or terminating the Chief Audit Executive, and receiving periodic results of internal audit activities. Administrative reporting involves the day-to-day activities of the internal audit function including human resource administration, budgeting,

and administration of internal policies and procedures (IIA, 2002). The IIA (2007b) and Moody's Investor Services (Johnson, 2006) recommend that the best practice to ensure internal audit independence is a dual reporting relationship where the Chief Audit Executive reports strategically to the audit committee and administratively to the CEO. In a survey of 379 Chief Audit Executives in the IIA Global Audit Information Network (GAIN) database, 55% of internal audit respondents note that they report strategically to the audit committee. Furthermore, for administrative reporting, only 10% report to the CEO while 51% report to either the CFO or Controller (IIARF, 2003).

Moody's Investors Services notes that a reporting relationship to the CFO represents a conflict of interest attributable to the CFO's role in the company's financial reporting process and a potential for the CAE to be hesitant to report negative findings given the reporting relationship (Swanson, 2006). James (2003) finds that lenders perceive internal auditors that reported both strategically and administratively to the audit committee are more likely to prevent financial statement fraud than internal auditors that report both strategically and administratively to management. This study examines the effect of reporting relationship on investor perceptions of disclosure credibility. The two reporting relationships examined in this study are an internal audit function that reports strategically to the audit committee and administratively to the CEO and an internal audit function that reports both strategically and administratively to the CFO.

Benefits of Internal Auditing

It is well acknowledged that the benefits enjoyed cannot be over emphasized. The institute or IIA stated that Internal Audit plays a vital role in

supporting and promoting administrative procedures (Ramamoorti, 2003). Holt and Dezoort (2009) indicate that auditors' responsibility in corporate governance has to do with monitoring risk together with checking the accuracy of financial statement reportage. Internal Audit also strengthen the independence of the external auditor by ensuring that he works with no influence irrespective of authority (Anechiarico, 2010; Asare, 2009; Montondon, 1995; Rezaee, 2007).

Internal Audit is referred to as by the Institute (IIA) “an independent, objective assurance and consulting activity designed to add value and improve on organization's operations. It helps an organisation accomplish its objectives by bringing systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes” (Ramamooti, 2003, P. 12).

The institute's explanation is centred just on the duties Internal Auditors on activities based on important department which may impacts present and toward activities which recognized the validity of the organisation, risk reduction, safeguards and governance (Arena &Azzone, 2009; Dittenhofer, 2001). It must be emphasized that apart from independency and objectivity they (internal auditors) perform their responsibilities by disciplining themselves according to their ethical standards. Carrying on internal auditing enhances good corporate governance. According to the Institute (2006, P3) “governmental auditing is a cornerstone to good governance”. Prawitt, Smith and Wood (2006) state categorically that the Institute (IIA) identified internal audit as the basis for corporate governance. It has been premised that the nature of audit internally is even identified or captured in the IIA explanation on the

topic “value added”. Arena &Azzone (2009) linked audit characteristics to assets, capabilities and involvement in Italian businesses. The nature of firm’s internal audit may be premised on the qualitative characteristics of resource allocated to the internal audit, the employees capabilities and the opportunities available to the internal audit unit to take part in resolving operational challenges.

Also, the environment in which management operate has effects on the efficacy of internal audit function. Sarenz & Abdolmohammadi (2011) observed the internal controls by management has effects on the efficacy of internal audit unit. These include defining of function appropriately in terms of establishment of duties or responsibilities of the internal audit as well as the tone put up in a form of culture by senior managers of the organisation.

Empirical Review

Previous studies have highlighted the critical role that internal auditors play in the financial reporting process (Asare, Davidson, & Gramling, 2008; Azzam, Alrabba, AlQudah, & Mansur, 2020; Church, McMillan & Schneider, 2001). For instance, Church et al. (2001) stressed that internal auditors play a significant role in detecting and preventing fraudulent financial reporting and minimise the cost associated with such activities. Asare et al. (2008) established that, internal auditors could help moderate aggressive accounting behaviour by management. Moreover, supervise the reliability of financial reporting. Other studies such as Lowe, Geiger and Pany (1999), Swanger and Chewning (2001) and James (2003) indicated that IAF information influenced the stakeholder’s perception of the quality of the financial reporting process.

While others analysed the internal auditor's participation and contribution to financial statement audit and audit of annual accounts (Azzam et al., 2020; Felix et al., 2001; Gras-Gil et al., 2012; Mohamed et al., 2012). For example, Gras-Gil et al. (2012) found that greater involvement of IAF in the review of the financial reporting process leads to improved FRQ. DeFond and Jiambalvo (1991) highlighted factors that could lead to minimizing error in organization financial reporting and indicated that internal auditing is an essential element for minimizing management behaviour related to financial reporting irregularities. Prawitt et al. (2009) indicate that high-quality IAF can provide greater transparency in the organization through monitoring and make it more likely that bias in management judgement is detected. Thus, a high-quality IAF can serve to detect and prevent opportunistic or biased choices in the financial reporting process.

A Study by Lin, Pizzini, Vargus, and Bardhan (2011) reported that IA aid to improvement in internal control systems. Soh and Martinov-Bennie (2011) study result provide insights into the current roles and responsibilities of the IA function and the factors perceived to be necessary to ensure its effectiveness & suggested significant expansion and refocus of the role of IA and perceptions of its effectiveness. Ma'ayan and Carmeli (2016) stated that though the prevention and identification of fraud cases can be achieved through direct action by internal audit, the indirect influence of promoting the ethical culture in organizations is also part of this added value. Drogalas, Pazarskis, Anagnostopoulou, and Papachristou (2017) explored the relationship between IA effectiveness, internal auditor's responsibility, training, and fraud detection. Their results revealed that the detection of fraud audit positively and

significantly affected by audit effectiveness, auditor responsibility and auditor training. Further, the importance of IA in detecting accounting fraud and the need of companies to invest on internal audit processes and training to achieve enhanced corporate performance is also highlighted by the result. While Carcello, Eulerich, Masli, and Wood (2020) examined whether internal auditing provides value to organizations by reducing risk & found that IA reduces the perceived risks of the audited units more compared to non-audited units & presented evidence suggesting that audited units perceive greater improvements in performance relative to non-audited units.

Prawitt et al. (2009) investigate the link between IAF and financial reporting quality. They find that IAF quality is unrelated to positive abnormal accruals, but negatively related to negative abnormal accruals (i.e., higher IAF quality is associated with lower magnitude negative abnormal accruals), and state that this is consistent with high-quality IAFs limiting big-bath behavior. Prawitt et al. (2009) also find that firms that just miss analysts' consensus forecasts have higher IAF quality compared to either firms that just meet analysts' consensus forecasts or all other firms. This provides some evidence of the effect of IAF quality on financial reporting quality, but does not directly address the effect on management misconduct.

The results of a well-functioning audit department towards reduction of corruption cannot be underrated, as Asiedu & Deffor (2017) and Khan (2006) discovered. They found out that internal audit departments (IADs) are reliable instruments for the detection of intentional errors and frauds. They also found that auditors are effective in reduction, if not elimination, of corruption. This has been largely facilitated by huge development in the internal audit function

(IAF) in such a way that the profession has been transformed from merely inspecting and auditing financial and accounting operations to examining, inspecting and assessing all activities and operations of companies (Chekouri et al., 2017; Šerbetar & Sedler, 2009).

Salisu (2014) pointed out that internal audit functions provide information that is useful for managerial decision making, identification of organizational strengths and weaknesses, ensuring best management of economic resources, assisting organizational social responsibility, minimization of the organizational risks of losses especially financial, ensuring value for money in terms of efficiency, effectiveness and economy for their companies. This was also supported by Sawyer (2003) as he defined internal audit as the “eyes and ears of management”, and also advocated for expanding of IAF from merely examining financial records to investigating the entire organizations’ operations in order to ensure that they are properly controlled and managed.

Conceptual Framework

The conceptual framework is based on literature that has been reviewed in the study.

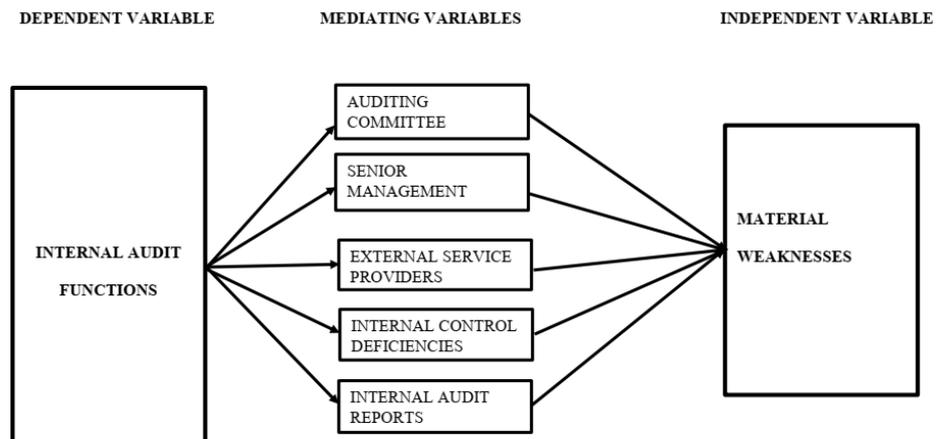
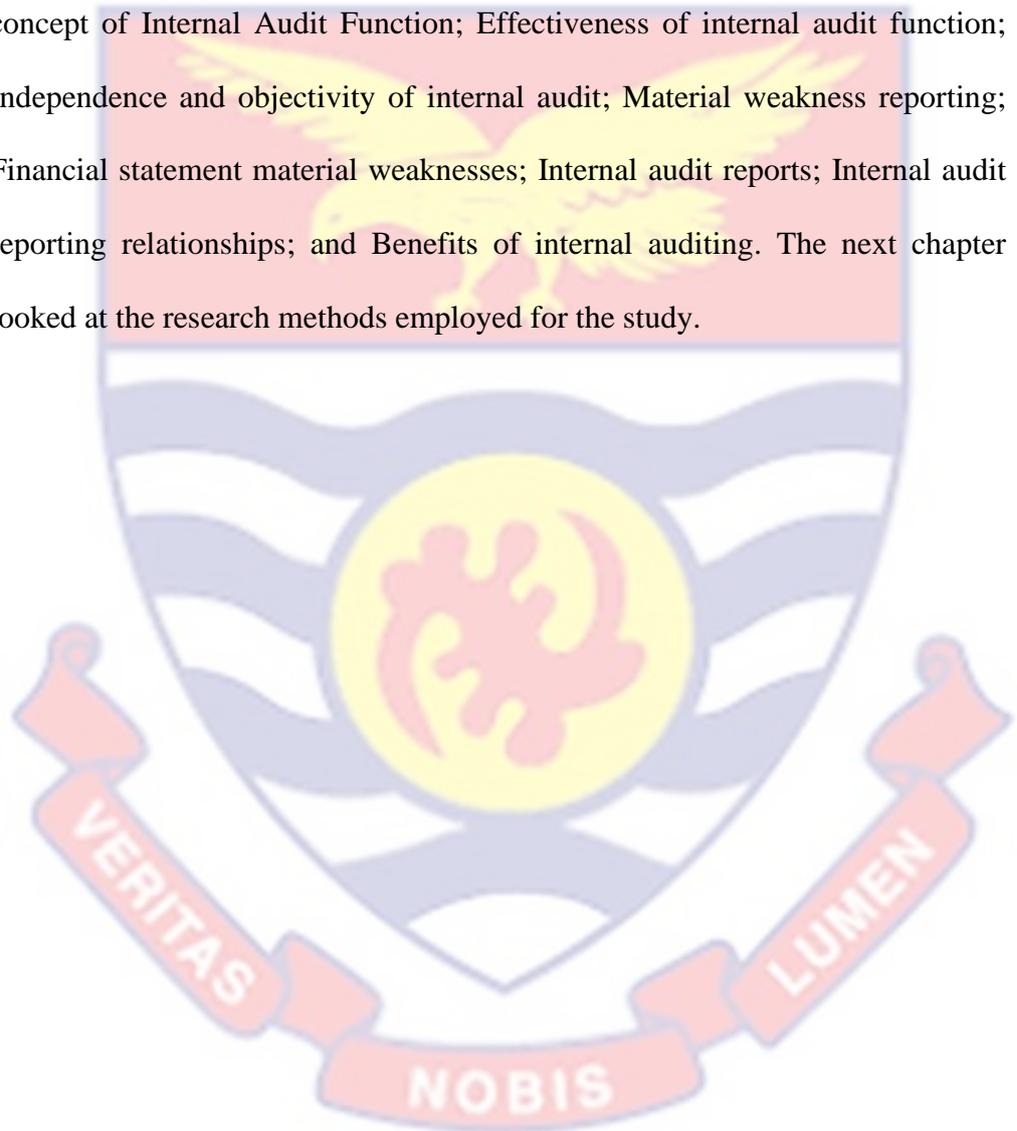


Figure 1: Conceptual Framework

Source: Authors own construct (2021)

Chapter Summary

This chapter reviewed literature on theoretical and conceptual issues relating to internal audit functions and material weaknesses; the concept of internal auditing; Internal audit function as monitoring control systems mechanisms; The role of internal audit function in risk management; The concept of Internal Audit Function; Effectiveness of internal audit function; Independence and objectivity of internal audit; Material weakness reporting; Financial statement material weaknesses; Internal audit reports; Internal audit reporting relationships; and Benefits of internal auditing. The next chapter looked at the research methods employed for the study.



CHAPTER THREE

RESEARCH METHODS

Introduction

The chapter described the research methodology used to investigate the role of internal audit function in the detection and prevention of material weaknesses at Agortime- Zipoe District Assembly in the Volta Region. This section described the research design of the study. It explored the population, sample and sampling methods. In addition, data collection and data analysis procedures as well as ethical issues considered in the study had been discussed.

Research Paradigm

Research paradigm sets the philosophical foundation and orientation of an investigative process. According to Creswell (2007), research paradigm is used to describe a researcher's philosophical view and conceptualisation of reality. This worldview about reality is the perspective, or thinking, or school of thought, or set of shared beliefs, that informs the meaning or interpretation of research data (Alise & Teddlie, 2010). Mackenzie and Knipe (2006) defined research paradigm as the conceptual lens through which researchers examine the methodological aspects of empirical investigative processes to determine the research methods that will be used and how the data will be analysed. This has significant implications for every decision made in the research process, including choice of methodology and methods.

A paradigm comprises four elements, namely, epistemology, ontology, methodology and axiology. Ontological and epistemological aspects concern what is commonly referred to as a person's worldview which has significant influence on the perceived relative importance of the aspects of reality. Two

possible worldviews are: objectivistic and constructivist. These different ways of seeing the world have repercussions in most academic areas; yet, none of these views is considered to be superior to the other. Both may be appropriate for some purposes and insufficient or overly complex for other purposes. Also, a person may change his/her view depending on the situation. For example, this study makes use of elements from both views and considers them as complementary.

Collies and Hussey (2003, p.3) used the term paradigm to the progress of scientific practice based on people's assumptions about the world and the nature of knowledge. They identified two main research paradigms, positivist and phenomenological paradigms. The philosophies behind the two paradigms are different. These differences are summarised by Cassell and Symon (1994, p.2) when they mentioned "the assumption behind the positivist paradigm is that there is an objective truth existing in the world which can be revealed through the scientific method where the focus is on measuring relationships between variables systematically and statistically". While Hollway (1991) argued that the quantification is at the heart of social sciences' claim to scientific method. The key concerns are that measurement is to be reliable, valid and generalizable in its clear predictions of cause and effect. Denscombe (2001, p.299) defined positivism as "an approach to social research which seeks to apply the natural science model of research to investigations of the social world". This approach assumes that there are clear patterns and regularities, causes and consequences in the social world just as there are in the natural world (Denscombe, 2001).

Bryman (2004, p.11) noted that positivism is an epistemological position that advocates the application of methods of the natural sciences to the

study of social reality and beyond". The above two definitions highlighted the idea of applying the methods used in the natural sciences in social sciences. Easterby-Smith, Thorpe and Lowe (2002) also argued that the main idea of positivism that the social world occurs extremely and therefore its properties should be gauged through objective methods rather than being inferred subjectively through sensation, reflection or hunch. According to the positivists, this approach provides the basis for explanation, permits the anticipation of phenomena, predict their occurrence and therefore allow them to be controlled. However, explanation includes the process of establishing causal relationships between the variables by establishing causal laws and linking them to a detective or integrated theory (Collis & Hussey, 2003). In line with this argument Collis and Hussey (2003) suggested that positivism is founded on the assumption that studies conducted in human behaviour should be conducted in the same way as studies carried out in natural sciences, so it attempts to place social research in the same realm as scientific research.

However, Collis and Hussey (2003) considered the phenomenological paradigm as a theoretical point of view that helps in studying the direct experience taken at face value and one that sees behaviour as determined by the phenomena of experience rather than by external, objective and physically described reality. According to the phenomenological paradigm, researchers are mainly focusing on the meaning rather than facts, try to understand what is happening, look at the totality of each situation and develop ideas through induction from evidence (Remenyi Money, Price, & Bannister., 2002). The phenomenological paradigm is described to be a qualitative method (Cohen and Manion, 2018) that stresses the subjective aspects of human activity that focuses

on the meaning rather than measurement of social phenomena. This study therefore employed the positivist paradigm.

Justification for the Choice of Positivist Paradigm

According to Weber (2004), positivists do not only assume the existence of reality or the real world that exists beyond the cognition of human beings, they also assume that acquiring the objective knowledge of reality or the real world is possible. Corbin and Strauss (2008) have said that the intention to identify regularities in, and to form an association between some elements, through the manipulation of reality with variations in only a single independent variable is called positivism. Information systems researchers have, over the years, used the positivist paradigm in various works, causing Orlikowski and Baroudi (1991) to posit that there is a clear dominance of the positivist perspective in the field of information systems literature.

The positivist paradigm was adopted for this study because it proposes the use of organized standards for making objective judgments in the conduct of a study (Guba, 1990). The paradigm is relevant for this study as it is the right way to provide certain knowledge that is grounded through quantification and objectivity (Kamil, 2011). As explained above, objectivity implies that the researcher and the phenomenon being researched are separate (Weber, 2004). Secondly, a full understanding based on experiment and observation can be realized when the positivism paradigm is employed. Hence, allowing the study to achieve objective scientific information. In as much as researchers need to respect the views of different researchers in their use of different research paradigms, in dealing with human research there is the need for researchers to understand and depict individual or social group differences in order to adopt a

democratic approach to group opinions for value selection. In the light of this, the positivist paradigm was deemed appropriate for this research.

Research Design

The research design refers to the manner in which data is collected for collecting, unionized and integrated in order to unearth the findings of research (Johnson & Onwuegbuzie, 2004). A research design is a plan or blueprint of how the researcher intends on conducting the research (Babbie, 2015). It considers the constraints such as access to data, time, location and money that would be inevitably encountered, as well as ethical issues relating to the research (Creswell, 2013). The research design consists of research strategies, research choices, and the time horizons of the research. It gives the strategy of enquiry, which moves from the underlying philosophical assumption to the research design and data collection (Ary, Jacobs, & Razavieh, 2012).

Saunders, Lewis, and Thornhill (2009) defined a research strategy as the general plan that a researcher uses in order to find answers to posed research questions. Saunders et al. (2009) further indicated that appropriate research strategy has to be selected based on research questions and objectives, the extent of existing knowledge on the subject area to be researched, the amount of time and resources available, and the philosophical underpinnings of the researcher. There are three categories of research strategies, these include; experiments, surveys, or case studies. These three instances; experiments, surveys, and case studies have different questions to be answered. The choice of any research design is influenced by the type of research question, the extent of control that the researcher has over actual behavioural events and the focus on contemporary

issues regarding the topic as against what has already happened in history (Yin, 2014).

In this study, the method adapted is a descriptive survey, as it has been developed within the context of the positivist paradigm (Neuman, 2006). The study is descriptive because it focuses on describing the role of internal audit function in the detection of material weaknesses at Agotime-Ziope District Assembly in the Volta Region of Ghana. Although the study adopted the descriptive survey, the quantitative approach was used. According to Creswell (2013), the quantitative research method primarily deals with quantifying relationships that exist between the various factors or variables under study through the use of statistical measures.

The survey strategy was adopted because it allowed the researcher to gather information from a large sample of people relatively quickly and inexpensively. Conducting surveys allows the collection of a sizeable amount of data from a defined population in a highly economical way (Fisher, 2010). The survey method is used to collect data from a sample of individuals systematically and also provide important information for all kinds of research including preferences, and behaviors; depending on the purpose and source (Hair, Money, Samuel, & Page, 2012). It is also economical as compared to the complete enumeration of the entire population (Quinn, 2010).

Study Area

Agotime-Ziope District was established by Legislative Instrument (LI 2080) in 2012 (GSS, 2014). The former Adaklu-Anyigbe District was split into Agotime-Ziope and Adaklu Districts in June 2012. The capital of the district is Agotime Kpetoe located 22 kilometres east of the Volta Regional Capital Ho,

along the Ho-Aflao Highway. Agotime-Ziope District is bordered by the Republic of Togo to the East and North; Akatsi to the North and Central Tongu Districts to the South and the Adaklu District to the West. The district covers a total land area of three hundred and fifteen kilometres square (315.7km²) and a population density of 88.7 persons per square kilometre (GSS, 2014).

The vision statement of Agotime-Ziope District Assembly is to ensure a sustainable improvement in the living condition of the people under its Jurisdiction through the active participation of the People while its mission is to build a solid foundation for the achievement of food security, informed civil society, appropriate education for all as well as effective and efficient health delivery and a vibrant private sector while ensuring equity and the protection of the vulnerable and the excluded in the benefits derived there.

It exists to perform these roles: prepare and implement plans and programmes for the Sustainable development of the people in the district; maintain peace and security in the district; ensure the delivery of adequate social services in the district; and promote private sector development etc.

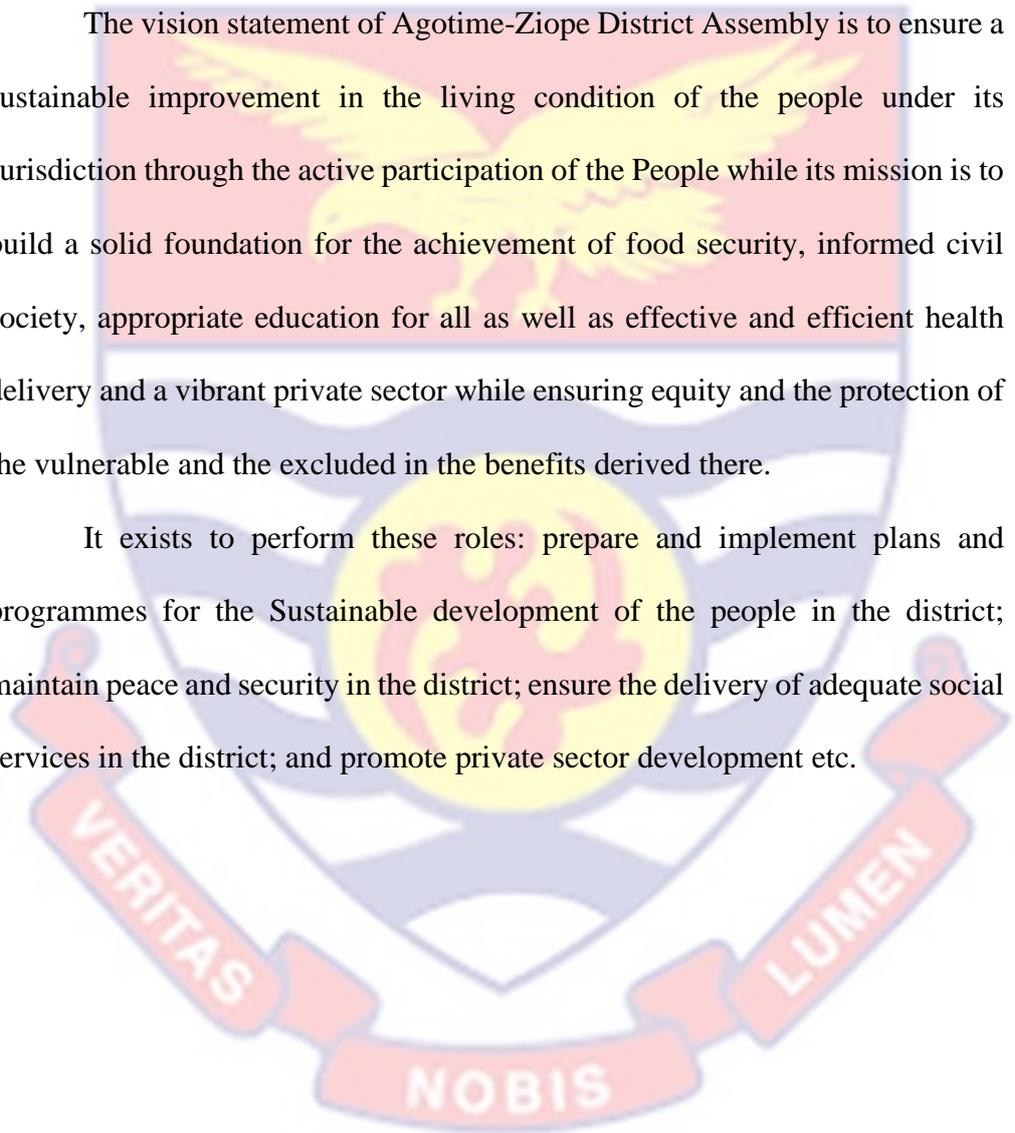




Figure 2: Map of Agotime-Ziope District

Source: GSS (2014)

Population

Population, according to Sekaran (2003), is the entire group of people, events or things of interest that the researcher would like to investigate in a study. Polit and Hungler (1999) stated “that, it is the entire aggregation of cases that meet a designed set of criteria”. Ritchie, Lewis, Nicholls, and Ormsto (2013) posited that a population is a group contributing valuable information to

research in which this information affects the population through a coordinated method. The target population for the study included all staff of the district assembly. The total population of staff members in the assembly as at the end of 2020 was 250 including the District Chief Executive (AZDA, 2020). However, the accessible population was all staff of the internal audit section of Agotime-Ziope District Assembly and persons in management positions who come into contact on a daily basis with clients of the assembly. The distribution of accessible population is that gender is made up of 180 males, while females are 70.

Arikunto (2002, p.112) argues if the population of the study are less than 100 in number, the researcher had better taken all of them. If the population are more than 100 number, the researcher can take around 10 %-15% or 20%-25% or 50 % of them. It means that if the total population is more than 100, the researcher is not available to analysis all the data.

Inclusion criteria: Staff who come into contact with clients of the assembly and have been at the assembly for over three years and have risen through the ranks and willing to participate in the study.

Exclusion criteria: Staff who are not within the precincts of the assembly and also have worked below three years and also unwilling to participate in the study would be excluded from the study.

Sampling Procedures

Sampling is the process of selecting a sufficient number of elements called sample from a given population in such a way that by studying the sample, and by understanding the properties or characteristics of the sample subjects, it would be possible to generalize the properties or characteristics of

the population (Cavana, Delahaye & Sekaran, 2001). Sample is thus the segment of the population that is selected for investigation (Bryman & Bell, 2007). A sample, according to Fink (2001) is a portion or subset of a larger group. It is a representative of the population if important characteristics (e.g., age, gender, status) are distributed proportionately in both groups. According to Patton (1990), deciding on a sample size for descriptive survey can be even more difficult than quantitative survey because there are no definite rules to be followed. It depends on what the researcher wants to know, the purpose of the inquiry, what is at stake, what will be useful, what will have credibility and what can be done with available time and resources. With fixed resources which are always the case, one can choose to study one specific phenomenon in depth with a smaller sample size or a bigger sample size.

Malhotra and Birks (2007) stipulate that a sample is the sub-group of the population selected for participation in a study. Sekaran (2003) also states that it is a subset of the population since it consists of some members who are selected from the population. “It is the process of selecting a sufficient number of elements from the population, so that the study of the sample and understanding of its properties and characteristics would make it possible for one to generalize such properties or characteristics to the population elements (Sekaran, 2003, p. 267)”. This implies that a sample consists of carefully selected subset of the units that comprise the population. A sample of 75 staff members out of a total staff of 250 were selected for the study.

According to Malhotra and Birks (2007), for conclusive research such as descriptive surveys, larger numbers are required. Creswell (2014) argues that most used approach for determining the sample in a descriptive study is to

specify the precision the precision of estimation desired and then to determine the sample size necessary to ensure it.

A combination of simple random sampling and purposive sampling techniques were used in selecting the respondents. The purposive sampling technique was used for the senior management members, accountants or operations officers, and internal auditors, while the simple random sampling technique was used for the assembly staff. According to Ghauri and Gronhaug (2005) every case of the population has an equal probability of inclusion in sample. Pinkham (1987) described a simple method to take a simple random sample of individuals from a population without a list sampling frame. However, it involves visiting each and every individual in the population, generally an impossibility for very large populations and a process through which a list sampling frame could be compiled in any case. According to Creswell (2008), the random sampling gives room for equal chances of selection without bias for the final sampling.

Purposive sampling is used to ensure that the elements which satisfy some predetermined criteria, for instance, possessing certain characteristics relevant to the study is selected (Nworgu, 2006). Since the researcher is interested in a category of staff, it is therefore necessary to select an area where the respondents may possess the characteristics that the researcher needs for the study. This therefore makes the purposive technique appropriate to use.

Data Collection Instruments

Collection of data was carried out using the survey questionnaire and document checklist in order to investigate the role of internal audit function in the detection and prevention of material weaknesses at Agotime-Ziope District

Assembly in the Volta Region. The main instrument used for data collection were the questionnaire. A questionnaire is a formalized framework consisting of a set of questions and scales designed to generate primary raw data (Hair et al, 2003). According to Hair et al (2003), the questionnaire is the most common type of instruments used in survey research. Again, the questionnaire, on its part is effective when considering a large number of respondents and guarantees respondents' anonymity (Hair Black, Babin, Anderson and Tatham, 2006). The merit of using the questionnaire as a data collecting instrument is that of its affordability, less time consuming and also, it gives the assurance of no interview bias as compared to other forms of data collecting instrument. According to Mouton (1996), data collection from a survey approach using questionnaire allows the researcher to gather information from large sample groups and it can be administered with ease.

The questionnaire began with an introductory statement, which specified the purpose of the research as purely for academic purpose. Respondents were encouraged to give frank responses by assuring them of confidentiality of their responses. The questionnaire was divided into four parts. The first part had questions on respondents' demographic data such as gender, age, level of education, management level and number of years of experience working at the assembly. Section B dealt with the roles of internal auditors in the Agotime-Ziope District Assembly; Section C dwelt on benefits of internal auditing while Section D focused on factors affecting internal audit practices.

The Likert scale was used as a form of measure for the responses. Tuckman (1994) asserts that Likert-type scales are used to register the extent of agreement or disagreement with a particular statement of attitude, beliefs, or

judgement. The Likert-type response alternative of five-point gradation was used to measure responses. “Strongly Agree” = 1, “Agree” = 2, “Neutral” =3 “Disagree” = 4, “Strongly Disagree” = 5.

Document checklist

Internal audit documents were sourced from the internal audit section of the assembly to systematically collect relevant statistics from documents about trends of internal audit function in detection and prevention material weaknesses in Agotime-Ziope District Assembly. In this case, document such as budgets, financial records, and entries of the Assembly that exhibit the spending of the Assembly was collected and then collected and then analyzed.

Pilot Test of Instrument

A pilot test was conducted to serve as a means of refining the questionnaire. As stipulated by McMillan and Schumach (1999), pilot test brings about an informal critique of individual items as they are prepared as well as a pilot test of the full questionnaire. The piloting was done at the Adaklu District Assembly using 50 staff. These staff possess characteristics similar to those in the main study. The Pilot test was meant to help the researcher eliminate irrelevant, ambiguous and misleading items before the final administration of the questionnaire. The information obtained from the subjects were used as a basis to build a more refined survey instrument (questionnaire) for administration in order to yield accurate response.

Validity and Reliability of Instrument

According to Sekaran (2003), validity of an instrument relates to the extent to which it actually measures what it is supposed to measure. Siniscalco and Auriat (2005) state that an instrument has content validity when an

agreement is obtained from a panel of judges or experts on a topic that the statements in the instrument do not relate to what they are supposed to measure. The questionnaire was given to experts who are well versed in research for scrutiny, taking into consideration how well the items were developed. This helped to establish the face and content validity of the research instrument. This purpose was to examine whether the items are related to the research questions and also if they comprehensively cover the content needed to provide appropriate response to the research questions. In addition, it was to determine if any of the items was ambiguous and misleading. Suggestions and corrections made were adopted and incorporated into the questionnaire to enhance its validity.

Reliability as indicated by Sekaran (2003) is the consistency and stability of a measuring instrument regardless of the stability of test takers. Stangor (2004) stipulates that the reliability of a measuring instrument is the extent to which the instrument is free from error, thus measuring consistency over time variables of interest. Reliability was done for each of the scales as they measured different issues (thus internal consistency).

Data Collection Procedure

The questionnaire on the role of internal audit function in the detection and prevention of material weaknesses at Agotime-Ziope District Assembly in the Volta Region was personally administered to the seventy-five (75) respondents in the assembly. Prior to the collection of data, a letter of introduction from the Department of Accounting was taken to the district assembly for permission to conduct the academic research. On arrival, the purpose of the study was explained to the district coordinating director. The

administration and collection of copies of the questionnaire were administered the same day but continuously over a period of two weeks. This was done in the month of May 2021.

Data Processing and Analysis

The data collected from research becomes meaningful only when it is organised, summarized and observations explained in order to determine its essential causes, statistical relationships, pattern and trends (Dane, 2011). The process requires the researcher to analyze the data that have been collected (Leary, 2004). Thus, the statistical programme used for the analysis and interpretation of data was the Statistical Package for Social Sciences (SPSS) version 23. Prior to this, copies of the questionnaire were coded for the data analysis. The coding ranged from 001 – 75

Demographic information from the questionnaire was analyzed using descriptive statistics such as frequencies and percentages where data was organized into frequency counts and converted into percentages while means and standard deviations were used for the research questions. The results were then presented in tables to answer the research questions. This went for all the research questions, 1 to 4. According to Dane (2011), it is in the interest of the researcher to determine how frequently a certain phenomenon occurs, the mean average of the data collected and the extent of variability between the variables. The purpose for the use of descriptive statistics as a tool of analysis is to describe the phenomenon of interest (Sekaran, 2003).

Besides, descriptive statistics involves the transformation of new data into a form that would provide information that describes factors of a particular situation which is achieved through the ordering and manipulation of raw data

collected (Sekaran 2003 as cited by Dane, 2011). The researcher's purpose for using means and standard deviation was also to make the interpretation of the results more meaningful for conclusions and recommendations to be made from the data.

Ethical Considerations

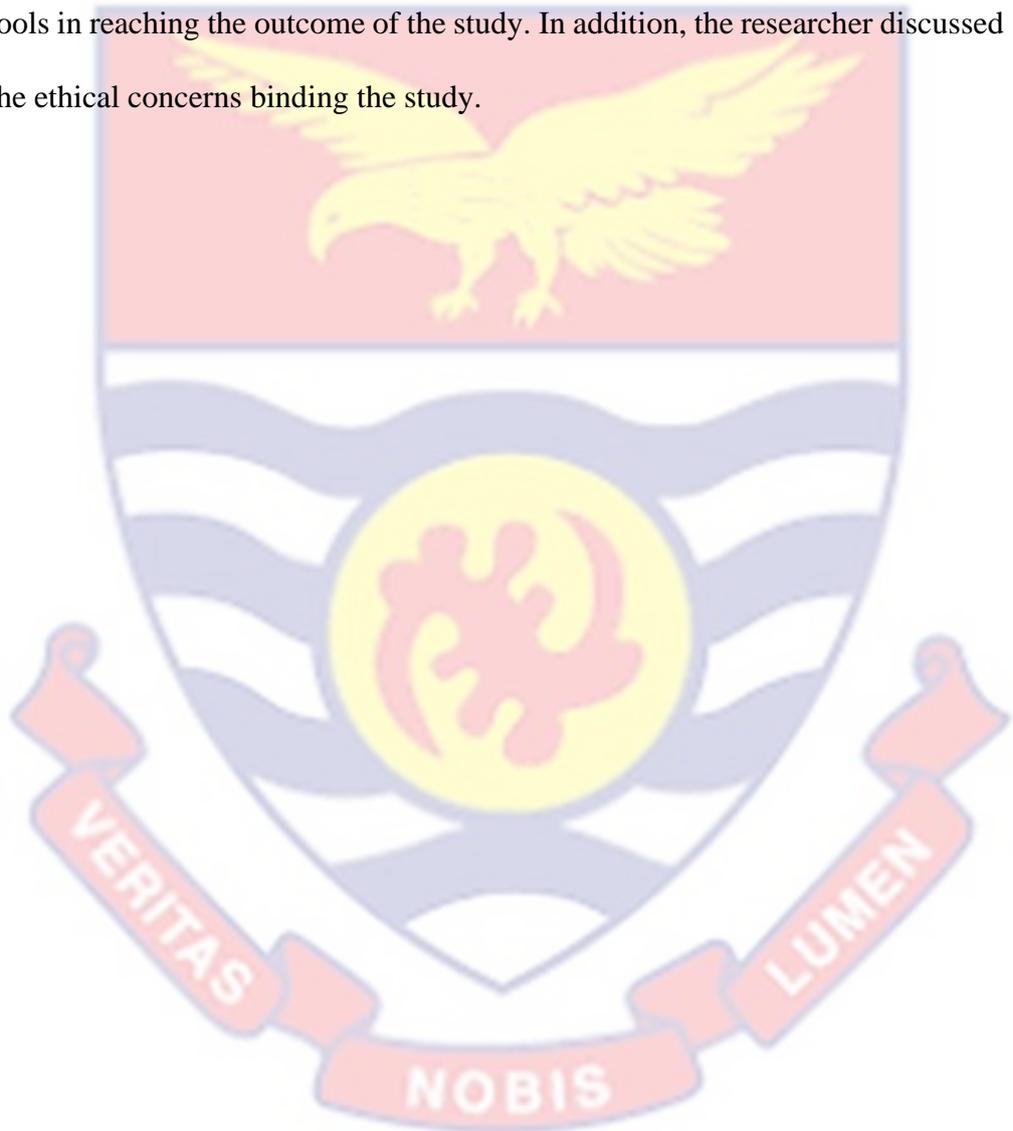
It is imperative and necessary for every researcher to put into consideration ethical issues governing the research. This is for the fact that social researchers need to prepare themselves in terms of all ethical issues in the design of a study in order to build a sound-ethical practice (Neuman, 2006). In this study, the respondents' privacy were respected by seeking their consent first, as one of the tenets in social research requires voluntary participation of respondents. In this regard, the researcher explained the objectives of the study, as well as its significance to boost respondents' voluntary participation.

There is the belief that subjecting respondents to answering items in a questionnaire could cause physical and emotional harm to them. Thus, statements in the questionnaire were framed in a way that presented a variety of options and free will to respondents so that, they can select items appropriate to them. Respondents were also be assured of anonymity and confidentiality. The researcher will reveal his identity to participants of the study for the purpose of clearing their minds of all doubts and deceptions of the study.

To avoid the scientific misconduct in research, called plagiarism, the study followed strictly the prescribed standards of scientific behaviour to avoid plagiarism. The researcher ensured that ideas, works and writings made use of are acknowledged and referenced appropriately.

Chapter Summary

This chapter dwelt on the method and research design which employed the use of the quantitative approach, specifically the descriptive survey. It discussed in detail ways of data collection and analysis, as well as emphasized on the statistical tools, not failing to mention the rationale behind the use of such tools in reaching the outcome of the study. In addition, the researcher discussed the ethical concerns binding the study.



CHAPTER FOUR

RESULTS AND DISCUSSION

Introduction

This chapter deals with the results from the data analysis as well as the discussion of the findings on the role of internal audit function in the detection and prevention of material weaknesses at Agotime-Ziope District Assembly in the Volta Region. The analysis was done guided by the research questions. Thus, relevant tables and figures were used to display the data which were also complemented with short descriptions. The discussion on each finding, which was separated from the results, comprised the interpretation of the data supported with previous findings from the related literature coupled with its implications where possible. The instruments used to collect the data were a questionnaire and document checklist. In all, 75 staffs of Agotime-Ziope District Assembly were selected and given the questionnaire to respond to.

The researcher employed the use of descriptive statistics (frequencies, percentages, means and standard deviations) to describe the demographic characteristics as well as answer the research questions. Finally, the results in this section was organized into two parts, with the first part dwelling on statistical analysis of demographic information of participants, while the second part dealt with the research questions and hypotheses formulated for the study. The statistical programme used for the analyses and presentation of data in this research was the Statistical Product for Service Solution (SPSS) version 20.0 to facilitate the quantitative data analysis.

Analysis of demographic information of respondents

Analysis of demographic information of participants is centered on gender, age, management level, level of education and years of working. On the issue of gender, data collected indicated 44 males (58.7%) and 31 (41.3%) females as shown in Table 1.

Table 1: Distribution of Participants by Gender

Gender	No.	%
Male	44	58.7
Females	31	41.3

Source: Field Survey (2021)

Results in Table 1 depict a slight majority of males (58.7%) participating in the study as against females (41.3%). Thus, based on the results presented, it can be concluded that there was an even distribution of participants by gender.

Table 2: Age Distribution of Respondents

Age	Frequency	%
20-29	10	13.3
30-39	25	33.3
40-49	28	37.3
50-59	12	16.0
Total	75	100

Source: Field Survey (2021)

Of the respondents chosen for the study, 10 (13.3%) were between the ages of 20-29, 12(16.0%) were also between ages 50 and 59, 28(37.3%) were between the ages of 40 and 49 while 25 (33.3%) were between 30 and 39 years

of age. The above age ranges indicate that all the respondents chosen for the study were in a position to know what internal audit function and material weaknesses is about. It was therefore hoped that the true information would be given due to their maturity. The respondents had an adult work force with a mean age of 2.56 and a standard deviation of .91887.

Table 3: Management level of staff

Level	Frequency	%
Executive	13	17.3
Middle	30	40.0
Senior	32	42.7
Total	75	100

Source: Field Survey (2021)

The data in Table 3 shows the distribution of respondents with respect management at the district assembly. This is to say that, out of a total of 75 respondents, 13 (17.3%) of the respondents are in executive position. 32 (42.7%) were in the senior management level while 30 (40.0%) respondents were in the Middle management level. This item had a mean of 2.253 and a standard deviation of .7369.

Table 4: Level of education of respondents

Level of education	Frequency	%
HND/Diploma	14	18.7
Degree	36	48.0
Postgraduate	25	33.3
Total	75	100

Source: Field Survey (2021)

From Table 4, out of a total of 75 respondents, 36 (48.0%) had attained a degree, 25 (33.3%) had a postgraduate education. Again, 14 (18.7%) had attained an HND/Diploma and have been employed by the Assembly and had risen through the ranks through long service promotion.

Table 5: Years of working in the district assembly

Years	Frequency	%
Less than 3 years	21	28.0
3-7 years	27	36.0
Above 7 years	27	36.0
Total	75	100

Source: Field Survey (2021)

The data in Table 5 shows the distribution of respondents with respect to the number of years worked in the Assembly. This is to say that, out of a total of 75 respondents, 27 (36.0%) of the respondents had worked in the assembly between 3 to 7 years and above representing a mean of 2.08 and a standard deviation of .801.

Analysis and Results of the Research Questions

Descriptive statistics (percentages and frequencies, mean and standard deviations) were used in order to answer the research questions. A Five Point Likert-Type Scale of Strongly-Agree (SD), Agree (A), Neutral (N), Disagree (D) and Strongly-Disagree (SD) questionnaire was used. With this a further coding of these ratings were done for analysis, where Strongly Agree is 1, Agree is 2, Neutral is 3, Disagree is 4 and Strongly Disagree is 5.

Research Question One

What are the roles of Internal Auditors in district assemblies in the detection and prevention of material weaknesses in the Agotime-Ziope District Assembly?

Research question one sought to identify the specific roles of auditors in the detection and prevention of material weaknesses in the Agotime-Ziope District Assembly. The results are presented in Table 6.

Table 6: The roles of internal auditor in the district assembly

Statement	Response			
	N	A	N	D
Internal auditors report to the audit committee	75	72 (96.0)	-	3 (4.0)
The sanction or penalize those who defraud the assembly	75	61 (81.3)	12 (16.0)	2 (2.7)
They vet payment vouchers before payment is (are) made	75	74(98.7)	1 (1.3)	-
Internal auditors ensure the operations of the assembly conform to its mission	75	64(85.3)	11 (14.7)	-
Internal auditors uncover errors and misappropriations in district assemblies	75	69(92.0)	6 (8.0)	-
They review and advise management on the development of key organization systems and implementation of major change policies of the organization	75	72(96.0)	1 (1.3)	2(2.7)
They review compliance with statutory laws and regulations as well as the internal policies, decisions, and procedures	75	72(96.0)	1 (1.3)	2(2.7)
Examination and evaluation of financial and operating records and information	75	71(94.7)	4 (5.3)	-
Design appropriate internal controls and monitor their implementation to	75	66(88.0)	7 (9.3)	2(2.7)

achieve operational efficiency and value for money in terms of economy, efficiency and effectiveness.

Source: Field Survey (2021)

The responses received on the roles of internal auditor in District Assemblies in Ghana revealed that per the view of 74 (98.7%) of the respondents the major roles played by the internal auditor are vetting payment voucher before payment is (are) made, reporting to the audit committee 72 (96.0%), reviewing and advising management on the development of key organization systems and implementation of major change policies of the organization 72 (96.0%), and examining and evaluation financial and operating records and information.

Vetting payment vouchers ensures the funds of the assembly as it reduces the incidence of making wrongful payments. Reporting to the audit committee ensures the internal audit unit work according to set standards since they would be held answerable for any identified lapses when presenting their reports to the audit committee. Likewise, reviewing and advising management on the development of key organization systems and implementation of major change policies of the organization leads to enhanced efficiency in all areas of operations within the assembly. This is made possible by upgrading or changing old systems to meet contemporary work demands, thereby increasing work efficiency, all of which is made possible through recommendations made during review processes. In addition, the incidence of financial losses and fraud are minimized when the internal auditor takes key interest in examining and evaluating financial and operating records and information. In so doing, the

internal auditor is able to identify lapses in financial information, leading to protecting of funds.

Also, when operating records and information are critically examined by the internal auditor, areas of operations where the MMDA fall short would be identified with appropriate remedial measures provided. Reviews of operating records and information by the internal auditor would further aid the MMDA to identify operational processes that need to be changed and the ones that need to be cancelled altogether. Doing this reduce waste of resources.

Other identified roles performed by the internal auditor according to the respondents were uncovering errors and misappropriations in district assemblies 69 (92.0%), reviewing compliance with statutory laws and regulations as well as the internal policies, decisions, and procedures 68 (90.7%), designing appropriate internal controls and monitoring their implementation to achieve operational efficiency and value for money in terms of economy, efficiency and effectiveness 66 (88.0%), ensuring the operations of the assembly conform to its mission 64 (85.3%), and sanction or penalize those who defraud the assembly 61 (81.3%).

These trend of results are in line with the assertion by the Institute of Internal Auditors (2000) that the internal auditor is concerned with any phase of business activity where he can be of service to management. This involves going beyond accounting and financial records to obtain a full understanding of the operations under review. This is made possible by the varied roles played the internal auditor as outlined above. The varied roles played by the internal auditor is further evident in the roles of the internal auditor outlined by the Institute of Internal Auditors (2011) to include play a key role in risk

management and providing consultants and assurance services to the executives. This makes it possible for the internal auditor to perform various functions of internal audit like internal control, corporate governance and risk management, all of which are necessary for effective administration of MMDAs.

Table 7: Means and Standard Deviations Distribution on the roles of internal auditor in the district assembly

Statement	M	SD
Internal auditors report to the audit committee	1.040	.197
The sanction or penalize those who defraud the assembly	1.213	.473
They vet payment vouchers before payment is (are) made	1.013	.115
Internal auditors ensure the operations of the assembly conform to its mission	1.146	.356
Internal auditors uncover errors and misappropriations in district assemblies	1.080	.273
They review and advise management on the development of key organization systems and implementation of major change policies of the organization	1.066	.342
They review compliance with statutory laws and regulations as well as the internal policies, decisions, and procedures	1.066	.342
Examination and evaluation of financial and operating records and information	1.053	.226
Design appropriate internal controls and monitor their implementation to achieve operational efficiency and value for money in terms of economy, efficiency and effectiveness.	1.146	.425

Source: Field Survey (2021)

Table 7 revealed that Internal auditors report to the audit committee. This is evident by the total mean score of 1.04 (SD=.197) while most of the statements that pointed to roles of internal auditors had mean scores between 1.03 and 1.14 and this indicates a moderate response from the respondents.

Respondents agree that their roles are very involving as they have to uncover errors and misappropriations in the assembly.

Research Question Two

What are the benefits of Internal Auditing in the detection and prevention of material weaknesses in the Agotime-Ziope District Assembly?

This question sought to find out the benefits of Internal Auditing in the detection and prevention of material weaknesses in the Agotime-Ziope District Assembly. It also sought to find out how participants reacted to each of the statements. Table 8 presents responses from respondents sampled for the study.

Table 8: The benefits of internal auditing to the district assembly

Statement	Response			
	N	A	N	D
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.	75	68 (90.7)	4(5.3)	3 (4.0)
It enhances good corporate governance practices	75	52 (69.3)	20 (26.7)	3 (4.0)
It provides advice and recommendations to the assembly rather than seeking consultancy service.	75	67(89.3)	8 (8.0)	2 (2.7)
Internal audit unit in the district assembly serves as a deterrent to risk and fraud	75	58(77.3)	16 (21.3)	1 (1.3)
They provide secure custody of the assembly’s resources	75	69(92.0)	6 (8.0)	-
They report and uncover unauthorized practices	75	68(90.7)	7 (9.3)	-

Source: Field Survey (2021)

Regarding the benefits of internal auditing to District Assemblies in Ghana, 68 (90.7%) of the respondents agreed internal auditing 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. This assertion however had 3 (4.0%) respondents disagreeing. This shows that, MMDAs with effective internal audit units would be able to achieve their set objectives by strictly following suitable laid-down approaches. Good corporate governance practices were also cited by 52 (59.3%) as another benefit of internal auditing. This implies that, when internal auditing is keenly done by MMDAs, corporate governance activities needed for effective management of MMDAs increases. For instance, per the view of 67 (89.3%) of the respondents, internal auditing provides advice and recommendations to the assembly rather than seeking consultancy service. This finding was supported by the view expressed by Holt and Dezoort (2009) who indicate that internal audit's role in corporate governance is to monitor risk and seeing to it that there is financial reporting reliability.

The assembly in so doing therefore will be able to reduce cost that would have been used in paying external consultants. Likewise, 58 (77.3%) of the respondents agreed internal audit serves as a deterrent to risk and fraud, 69 (92.0%) agreed it provides secure custody of the assembly's resources, and 68 (90.7%) stated internal audit when effective report and uncover unauthorized practices. As indicated by authors like (Anechiarico, 2010; Asare, 2009; Montondon, 1995; Rezaee, 2007), internal audit provide and support for the monitoring and the oversight function filled by management, the board and external auditors by providing independent and objective verification or

examination over the operational and strategic perspective of corporate governance like the system of internal control. This shows that unacceptable practices like fraud, uneven distribution of resources, theft, embezzlement, etc. are minimized when internal auditing practices are implemented efficiently by MMDAs.

Table 9: Means and Standard Deviations Distribution on benefits of internal auditing to the district assembly

Statement	M	SD
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.	1.133	.445
It enhances good corporate governance practices	1.346	.557
It provides advice and recommendations to the assembly rather than seeking consultancy service.	1.133	.413
Internal audit unit in the district assembly serves as a deterrent to risk and fraud	1.240	.460
They provide secure custody of the assembly's resources	1.080	.273
They report and uncover unauthorized practices	1.093	.292

Source: Field Survey (2021)

Respondents agreed that internal auditing benefits the assembly to detect and prevent material weaknesses. Data analysis shown in Table 9 firmly indicates that internal audit functions act as a determinant of detecting material weaknesses in Agotime-Ziope District Assembly with a total mean score of 1.13 (SD = .413). Various statements under benefits of internal auditing had mean values ranging between 1.08 and 1.34. For example, to find out whether enhances good corporate governance practices, the mean score calculated was 1.34 (SD = .557) indicating a positive response. The response on “Internal audit

unit in the district assembly serves as a deterrent to risk and fraud,” recorded a mean score of 1.24 (SD = .460). These mean scores with standard deviations reveal that the benefits derived from internal audit serves to detect material weaknesses.

Research Question Three

What are the factors affecting Internal Audit Practices in the detection and prevention of material weaknesses in the Agotime-Ziope District Assembly?

Research question three was mainly proposed to find out the factors affecting Internal Audit Practices in the detection and prevention of material weaknesses in the Agotime-Ziope District Assembly. Responses to statements were rated and are reported in Table 10.

Table 10: Factors affecting internal audit practices at the assembly

Statement	Response			
	N	A	N	D
The regulatory framework determines the internal audit practice	75	70 (93.3)	1 (1.3)	4 (5.3)
The independence of the internal auditor determines the internal audit practice	75	67 (89.3)	3 (4.0)	5 (6.7)
The working environment determines the internal audit practice	75	49(65.3)	23(30.7)	3 (4.0)
The qualification/experience of the internal auditor determines the internal audit practice	75	64(85.3)	8 (10.7)	3 (4.0)
Management support for the internal auditing staff determines the internal audit practice	75	64(85.3)	8 (10.7)	3 (4.0)

Reporting and follow up affects the effectiveness of the internal audit 75 72(96.0) 3 (4.0) -

Source: Field Survey (2021)

On the factors affecting internal audit practices, 96.0% respondents stated reporting and follow up affects the effectiveness of internal audit. This means that the effectiveness of internal audit activities depends on how audit reports and follow ups are handled. The next factors agreed upon by 93.3% of the respondents were how regulatory frameworks determine internal audit practice. With this, the Institute of Internal Auditors (IIA) has standards that constitute the criteria by which the operations of an internal auditing department are evaluated and measured and intended to represent the internal auditing practices as it should be. This therefore goes a long way in affecting internal audit practices in MMDAs.

Further, the qualification/experiences and also the independence of the internal auditor was respectively identified by 85.3% of the respondents as other factors affecting internal audit practices. The qualification/experience would help MMDAs determine whether the appointed internal auditor has adequate education to perform assigned duties and responsibilities when appointed. Independence on the internal auditor is also important in ensuring they render impartial and unbiased judgment in the conduct of their engagement. Hence, the internal auditor is expected to have an impartial, unbiased attitude and avoid conflict-of-interest situations, as that would prejudice his/her ability to perform the duties objectively. Finally, management support for internal audit practice (85.3%) and working environment (65.3%) were equally mentioned as some other factors affecting internal audit practices.

Top management support is crucial to the acceptance and appreciation of the IAF within an organization. As stated in the literature, internal auditors should be supported from top management and Board of Directors to execute its duties and fulfill its responsibilities. This means that, management support is necessary since established effectiveness of internal audits is a control function for management in achieving the goals and targets of the organization. Thus, non-established effectiveness of internal audits will be an organizational barrier to achieving organizational goals economically, efficiently, and effectively, thereby affecting managerial activities negatively.

Making the work environment of internal auditors is necessary since internal auditors in most public services work under poor working conditions, mainly due to failure of management to support their role, coupled with failure to allocate sufficient resources to the internal audit function (Morgan, 2009). Insufficient attention by top management is a negative indicator of the importance of the internal audit function and this affects the performance of internal auditors.

Research Question Four

How does Internal Audit affect the detection and prevention of material weaknesses in the Agotime-Ziope District Assembly?

Research question 4 required respondents to rate how internal audit affect the detection and prevention of material weaknesses in the Agotime-Ziope District Assembly. It was also basically concerned with finding out participants' reactions to the various statements. Table 11 presents results to this effect.

Table 11: How internal audit affect the detection and prevention of material weaknesses in the Agotime-Ziope District Assembly

Statement	Response			
	N	A	N	D
Internal auditors are seen as an integral part of management	75	68 (90.7)	7 (9.3)	-
Approving internal audit plan, scope, and budget	75	50 (66.7)	22(29.3)	3 (4.0)
Reviewing and discussing internal audit reports	75	71(94.7)	4 (5.3)	-
Assessing the performance of the head of the internal audit function	75	53(70.7)	21(28.0)	1 (1.3)
Approving the audit charter and the code of ethics of the internal audit function	75	56(74.7)	17(22.7)	2 (2.7)
Reviewing discoveries of fraud and violations of laws and regulations as raised by the head of internal audit function	75	62(82.7)	10(13.3)	3(4.0)
Approving, or recommending to the board for its approval, the annual remuneration of the internal audit function as a whole, including performance awards	75	56(74.7)	18(24.0)	1(1.3)
Approving, or recommending to the board for its approval the appointment, reappointment or removal of the head of the internal audit function and key internal auditors	75	59(78.7)	15(20.0)	1(1.3)

Source: Field Survey (2021)

Results on how internal audit does affect corporate MMDAs revealed that 68 (90.7%) of the respondents agreed that, internal auditors are seen as an integral part of management. This may be due to the various activities they perform some of which include approving internal audit plan, scope, and budget as agreed by 50 (66.7%) of the respondents with 3 (4.0%) of the respondents disagreeing, reviewing and discussing internal audit report which had 71 (94.7%) of the respondents agreeing and 4 (5.3%) of the respondents disagreeing, and assessing the performance of the head of the internal audit function to which 53 (70.7%) of the respondents agreed and 1 (1.3%) of the respondents disagreed. In performing the functions outlined above, internal audits aid in enhancing the corporate functions of MMDAs. As mentioned by the IIA (2011), assisting the management of firms to achieve corporate governance goals, and providing the assurance that management has implemented a satisfactory internal control system to prevent risks are the basic aim of internal auditing. Hence, in undertaking the functions outlined above, the basic aim of internal audits in MMDAs is achieved.

The results further revealed that internal audits in corporate MMDAs approve the audit charter and the code of ethics of the internal audit function as agreed by 56 (74.7%) of the respondents with 1 (22.7%) disagreeing. This ensures all internal audit personnel in MMDAs adhere to set standards in performing audit functions, thereby enabling them to effectively perform the duties of reviewing discoveries of fraud and violations of laws and regulations as raised by the head of internal audit function. This function had 62 (82.7%) respondents agreeing and 3 (4.0%) of the respondents disagreed. Also, 56 (74.7%) of the study respondents agreed with internal audit affects corporate

MMDA by approving or recommending to the board for its approval, the annual remuneration of the internal audit function as a whole, including performance awards. On the other hand, 1 (1.3%) respondent disagreed with the statement. Similarly, 59 (78.7%) of the respondents agreed that, approving, or recommending to the board for its approval the appointment, reappointment, or removal of the head of the internal audit function and key internal auditors. This statement also had 1 (1.3%) respondent disagreeing which is an indication that, when internal audit units in MMDAs are functional, efficiency in corporate management in MMDAs increases. This reiterates the view expressed by the IIA (2000) that the objective of internal auditing is to assist all members of management in the effective discharge of their responsibilities by furnishing them with analyses, appraisals, recommendations, and pertinent comments concerning the activities reviewed. Hence, MMDAs stand to derive maximum benefits in their corporate operations when internal audit units are well resourced to effectively perform those duties and responsibilities.

Discussions

The results of the study were discussed in line with existing concepts and theories. The discussions were also done in relation to the specific questions of the study.

Data collected from the Agotime-Ziope District Assembly's internal audit office indicated that internal auditors monitor the assembly's expenditure to ensure that resources are utilized appropriately. They study, assess, and report on the amount of compliance with established rules and regulations, policies, plans, and processes, according to the head of Internal Audit. This supports Walker et al. (2003)'s argument that the function of the internal auditor is to

assist businesses in identifying and analyzing risks. The Internal Audit Charter defines the mandate of the IAUs in the MMDAs, as do the obligations imposed on the audit function by the legislative framework of the Internal Audit Agency Act, 2003 (Act 658) and the Local Government System. They must submit an annual assessment of the appropriateness and efficacy of the systems for regulating the MMDA's activities and managing its risks in the areas specified in the IAU's annual audit plan.

However, Leung et al. (2004) argue that internal auditors should be given explicit instructions on how to strike a balance between compliance and advising duties. The Internal Audit Unit's work at the Assembly is often hampered by the audit committee because the District Chief Executive is a member of the team and also approves any spending. To strengthen internal audit's role in corporate governance, emphasis should be placed on its ability to provide assurance to management and the board on the integrity of information flows, including monitoring of all internal systems that generate information – internal control, risk identification and assessment, management and communication processes, and timely advice to management and the board. The investigations also highlighted a number of shortcomings as well as inexperience on the part of the assembly's departmental staffs. Professionals play crucial responsibilities in public sector financial management. The Finance Officer or Financial Controller, the Internal Auditor, and the External Auditor are among these experts. The Auditor-General or a professional accounting firm contracted to audit any District Assembly is referred to as the External Auditor in this context. Internal auditors are auditors who undertake managerial duties in companies, institutions, and agencies such as staffing, training and

development, planning, budgeting, communication, and so on. Internal auditing is an independent activity developed by management to investigate and evaluate an organization's risk management process and operational control system. The audit's purpose is to analyze the integrity of internal controls and give suggestions to management for rectification and accomplishment of business goals.

According to Flesher (2004), while the current work of the internal auditor includes serving as a management consultant at times and auditing for efficiency and effectiveness as well as financial propriety, such activity has not always been among the internal auditor's tasks. When the necessity to identify mistakes and misappropriations was combined, the internal auditor became nothing more than a verifier. The findings also support Goetzee's (2004) study, which found that internal auditors working as consultants may help management identify, evaluate, and apply risk management approaches and procedures to handle such risks.

Wrong reporting of non-existent work value and receivables, which has been going on for a long time, has a significant impact on the Assembly's revenues. The added value of internal auditing is the creation of value for its stakeholders by allowing them to counteract the potential effects of risks along the value chain, as well as by enabling cost savings by implementing optimization potentials and strengthening corporate governance, thereby increasing confidence in the assembly's integrity. Internal auditing is regarded as crucial in the process of building strong corporate governance, for example, by adding value to internal controls, risk management, and governance procedures. The audit process's primary output is information in the form of

reports and presentations, making it difficult to determine the advantages obtained from its operations. Quantifying the expenses of indirect support tasks like internal audit is easier than measuring their monetary benefit.

Central to the framework of corporate governance and internal auditing as a whole is the question of providing additional value. The added value of internal auditing is the creation of value for its stakeholders by enabling them to counteract the potential effects of risks along the value chain and by enabling cost savings by implementing optimization potentials and strengthening corporate governance, thereby boosting confidence in the assembly's integrity. According to the respondents, internal auditing plays a significant role in building excellent corporate governance, for instance by producing value in the areas of internal controls, risk management, and governance procedures. In addition, depending on the advising actions of the Internal Audit Function, the enhancement of management decision-supporting procedures and data can produce extra value.

Respondents recommended that, in order to guarantee that the assembly's assets are preserved or safeguarded, the assembly must prioritize risk management. They emphasized that risk management at the assembly level is crucial since it prevents, detects, and issues directions, as opposed to merely reviewing accounting records and quality guarantees. In addition, the interview revealed that internal auditors provide advice services. In addition, they agreed that their main role is to present the assemblies with recommendations on how to reduce costs and increase efficiency and effectiveness. The internal auditor works as a consultant to the assembly on public sector governance, advising the Co-ordinating Directors on allowances to be paid to assembly members and

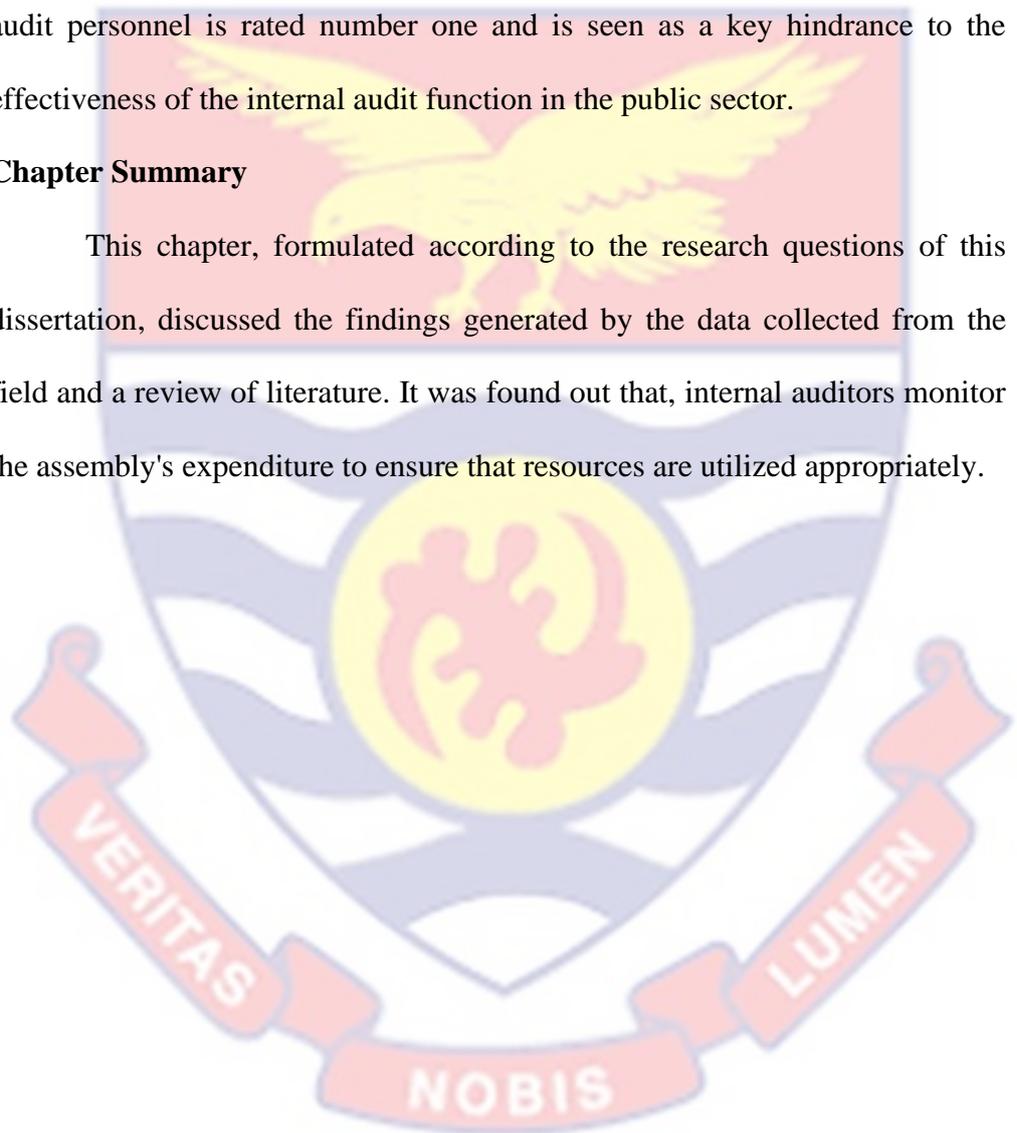
ensuring appropriate account management for any money utilized for improving the districts. They acknowledged that in order to ensure ethical practices and anticorruption programmes, effective risk assessments are conducted, periodic audits are conducted on potential high-risk areas, and a risk register is compiled as part of the annual plans to ensure that resources are accounted for and used as intended.

There are, however, obvious indications that the internal audit unit is offering guarantees and playing a compliance role to enable entire assembly's growth. Respondents believed that the Internal audit unit analyzes the risk management process through controls and enforcement of financial laws and rules in order to avoid fraud, discover it, and provide directives. Internal auditors are required to be independent by their obligation (Ahmed & Taylor, 2009). And ideally, internal auditors should be allowed to report audited items as they are and their reporting actions should not be influenced. In the meanwhile, the internal auditors confessed that they do not have access to all the essential information, documents, and personnel in order to make an educated decision regarding their audit activities. According to them, records such as cash books are never up-to-date, and the majority of information is constantly missing or not properly accounted for. These are indications that the units are not functioning in accordance with auditing best practices with regard to unfettered access to audit evidence. It was discovered that insufficient personnel, a lack of logistics in the audit process, poor implementation of audit recommendations, and restricted access to documents impeded the assembly's capacity to conduct high-quality audits to assure a highly sound and seamless development. The results were also consistent with those of Halima et al. (2009), who ranked the

top ten challenges faced by the internal audit as follows: lack of audit staff, lack of support or commitment from top management, lack of cooperation from auditor, lack of training, lack of independence, staff lack of competency/knowledge on auditing techniques, auditee/management not acting on audit findings and recommendations, lack of experience staff. Inadequate audit personnel is rated number one and is seen as a key hindrance to the effectiveness of the internal audit function in the public sector.

Chapter Summary

This chapter, formulated according to the research questions of this dissertation, discussed the findings generated by the data collected from the field and a review of literature. It was found out that, internal auditors monitor the assembly's expenditure to ensure that resources are utilized appropriately.



CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

Introduction

Chapter five of the study unveils or shows the outcome of this topic in three thematic areas; summary, conclusion and the recommendations to the topic “the role of internal audit function in prevention and detection of material weaknesses”.

Summary

The study aimed at assessing the role of internal audit function in the detection and prevention of material weaknesses: a case study of Agotime-Ziope District Assembly in the volta region. The study sought to evaluate the roles of Internal Auditors in district assemblies in the detection and prevention of material weaknesses in the Agotime-Ziope District Assembly; identify the benefits of Internal Auditing in the detection and prevention of material weaknesses; examine the factors affecting Internal Audit Practices in the detection and prevention of material weaknesses; and assess how Internal Audit affect the detection and prevention of material weaknesses in the Agotime-Ziope District Assembly. The quantitative approach was adopted by using the descriptive survey. The purposive and simple random sampling techniques were used for study. The accessible respondents to the study were 75 participants were

Two instruments, a questionnaire and document checklist were used to solicit information from the respondents and the internal audit unit of the district assembly. The various ethical issues laid down in conducting research were strictly complied with. Descriptive and inferential statistical tools were

employed for the data analysis. Specifically, demographic data of participants were analyzed using descriptive statistics such as frequency counts and percentage distributions. For all the research questions, frequency, percentages, mean and standard deviations were used.

Key Findings of the Study

The main findings that emerged from the research questions were:

1. The study revealed that the major roles played by the internal auditor are vetting payment voucher before payment is (are) made, reporting to the audit committee 72 (96.0%), reviewing and advising management on the development of key organization systems and implementation of major change policies.
2. The study reported that 68 (90.7%) of the respondents agreed internal auditing 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.
3. Another key finding of the study is that 58 (77.3%) of the respondents agreed internal audit serves as a deterrent to risk and fraud, 69 (92.0%) agreed it provides secure custody of the assembly's resources, and 68 (90.7%) stated internal audit when effective report and uncover unauthorized practices.
4. Also, respondents agreed that regulatory frameworks determine internal audit practice but qualification/experiences and also the independence of the internal auditor was respectively identified by 85.3% of the respondents as other factors affecting internal audit practices.

5. The results further revealed that internal audits in corporate MMDAs approve the audit charter and the code of ethics of the internal audit function as agreed by 56 (74.7%) of the respondents with 1 (22.7%) disagreeing. This ensures all internal audit personnel in MMDAs adhere to set standards in performing audit functions, thereby enabling them to effectively perform the duties of reviewing discoveries of fraud and violations of laws and regulations as raised by the head of internal audit function.

Conclusions

The results indicate that the nature and scope of Internal Audit Functions activities are more strongly associated with material weakness disclosures than the Internal Audit Functions attributes of competence, objectivity, and investment. Regarding Internal Audit Functions activities, it was found that material weakness disclosures are negatively associated with the extent to which the Internal Audit Functions in fieldwork, audits activities related to financial reporting, and follows up on previously identified control problems at Agotime-Ziope District Assembly. However, it was again found that material weakness disclosures are positively related with both Internal Audit Functions grading of audit engagements and external-internal auditor coordination. Together, the results have important implications for the assembly.

Based on the results of this research, it is easy to conclude that internal auditing functions prevents material weaknesses in the assembly though financial reports and tools are not being focused in internal audit operations. Top management support not only improves auditor efficiency but also encourage their involvement in risk prevention. The internal audit can be used

as a base to assure the management about the conformity of the assembly's rules and regulations but also to contribute and assure the assembly's goals.

Recommendations

Based findings, the study recommends that staff at the management level should lay emphasis on enhancing contract reviews, discovery sampling and fraud reporting policy among other techniques for material weakness prevention. Accordingly, it is being proposed that, analytical review and audit committee as techniques for fraud detection should be enhanced at the county level. Again, substantial emphasis must be placed on the importance of reporting lines in maintaining the autonomy of internal auditors.

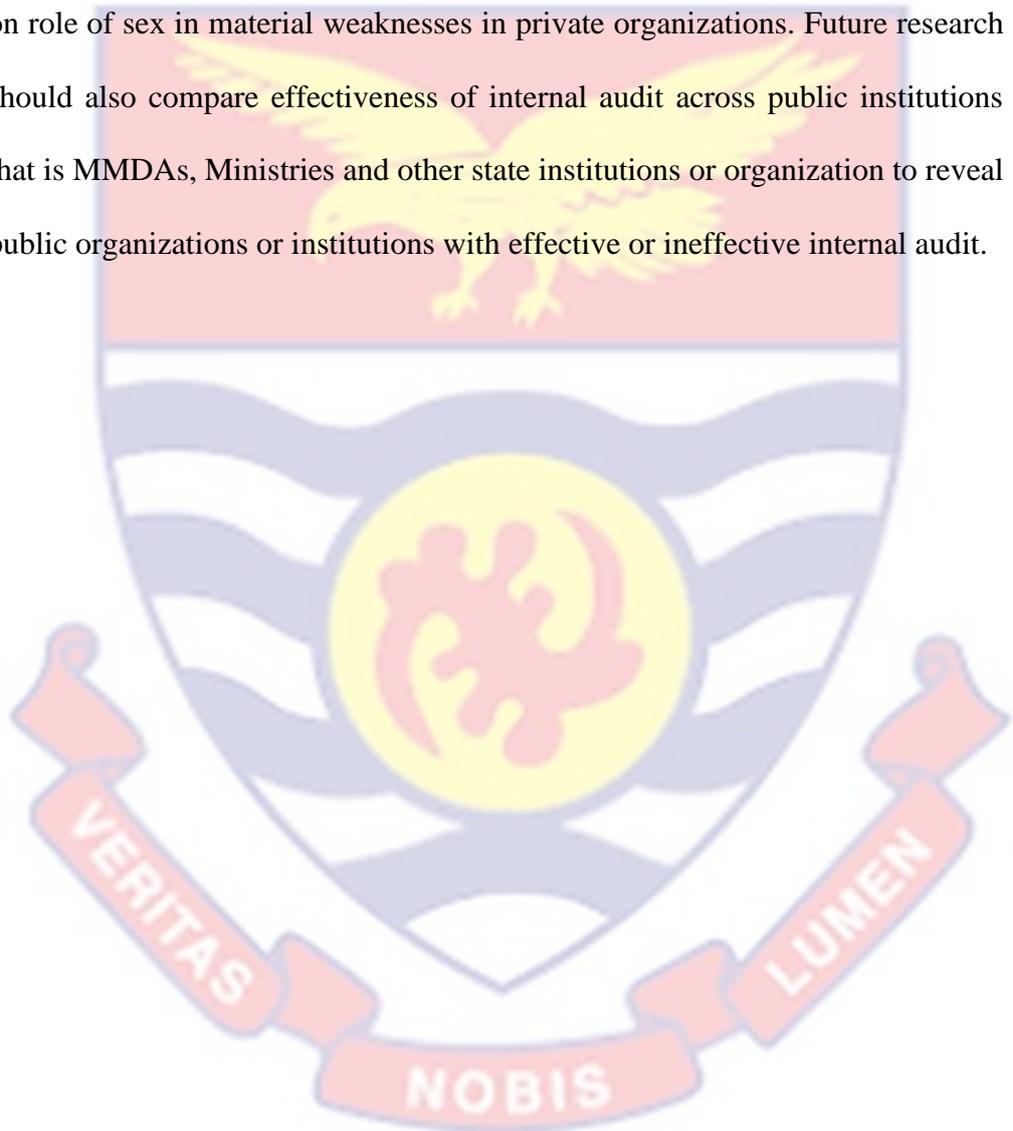
This study recommends that internal auditors should be seen as an independent body within public sector and this independence should be respected by all within the public sector, including the Internal Auditors themselves. This is consistent with Agency Theory and Government of Ghana should lead the promotion of the independence of Internal Auditors since it stands to benefit more than any other economic agents.

To achieve the appropriate degree of independence, the IA director should communicate, report and interact directly with the board of directors rather than the Chief Executive to ensure its independence and credibility. Internal auditors should be able to state their opinions freely and include any audit findings in their reports without agreement from the chief executive officer and without any bias or restrictions. Management should work towards decreasing the high turnover of personnel in internal audit departments because the low level of professional qualifications and rapid rotation of employees to and from the internal audit department results in internal auditors (excluding

directors) having low levels of experience in auditing. Therefore, it is recommended that well-trained internal auditors should be retained in the internal audit departments for a longer period of time.

Suggestions for Future Research

This study suggests that future research on internal audit should focus on role of sex in material weaknesses in private organizations. Future research should also compare effectiveness of internal audit across public institutions that is MMDAs, Ministries and other state institutions or organization to reveal public organizations or institutions with effective or ineffective internal audit.



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APPENDIX

UNIVERSITY OF CAPE COAST

COLLEGE OF HUMANITIES AND LEGAL STUDIES

CAPE COAST SCHOOL OF BUSINESS

The researcher is a Master of Business Administration (Accounting) Student of University of Cape Coast, Cape Coast, researching on the role of internal audit function in detection and prevention of material weakness, a case study of Agortime-Ziope District Assembly, Volta Region.

The research is specifically for academic purposes and as such information obtained will be treated confidentially.

SECTION A: DEMOGRAPHICS OF RESPONDENTS

Tick (✓) the appropriate box to provide your response.

1. Gender **A.** male { } **B.** female { }
2. Age
A. 20-29 { } **B.** 30-39 { } **C.** 40-49 { } **D.** 50-59 { } **E.** above 60 { }
3. Management level
A. executive { } **B.** middle { } **C.** senior { }
4. Educational level
A. Diploma/HND { } **B.** Degree { } **C.** Postgraduate/Masters { }
5. Years of experience
A. less than 3yrs { } **B.** 3-7yrs { } **C.** above 7yrs { }

SECTION B

Please rate your opinion on the following five-point scale. Response categories ranged from Strongly Agree (SA), Agree (A), Neutral (N), Disagree(D) and Strongly Disagree (SD)

A. To evaluate the roles of internal auditors in district assemblies in Ghana.

	SA	A	N	D	SD
Internal Auditors give report to the audit committee					
They sanctioned or penalized those who defraud the assembly					
They vet payment vouchers before payment is (are) made					
Internal Auditors ensures the operations of the assembly conform to its mission					
Internal Auditors uncover errors and misappropriations in District Assemblies					
They review and advice management on the development of key organizational systems and implementation of major change policies of organization					
They review compliance with statutory laws and regulations as well as the internal polices, decisions and procedures					

Examination and evaluation of financial and operating records and information					
Design appropriate internal controls and monitor their implementation to achieve operational efficiency and value for money in terms of economy, efficiency and effectiveness.					

B. To identify some benefits of Internal Auditing to the District Assemblies in Ghana

Please rate your opinion on the following five-point scale. Response categories ranged from Strongly Agree (SA), Agree (A), Neutral (N), Disagree (D) and Strongly Disagree (SD)

	SA	A	N	D	SD
It helps an organization accomplish its objectives by bringing systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes					
It enhances good corporate governance practices					
It provides advice and recommendations to the assembly rather than seeking consultancy service.					

Internal audit unit in the district assembly serves as deterrent to risk of fraud.					
They provide secure custody of assembly's resource					
They report and uncover unauthorized practices					

C. To examine the factors affecting Internal Audit Practices at MMDAs

Please rate your opinion on the following five-point scale. Response categories ranged from Strongly Agree (SA), Agree (A), Neutral (N), Disagree (D) and Strongly Disagree (SD)

	SA	A	N	D	SD
The regulatory framework determines the internal audit practice					
The independence of the internal auditor determines the internal audit practice					
The working environment determines the internal audit practice					
The qualification/experience of the internal auditor determines the internal audit practice					
Management support for the internal auditing staff determines the internal audit practice					

Reporting and follow up affects the effectiveness of the internal audit					
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D. To assess how Internal Audit does affects Corporate at MMDAs

Please rate your opinion on the following five-point scale. Response categories ranged from Strongly Agree (SA), Agree (A), Neutral (N), Disagree (D) and Strongly Disagree (SD)

	SA	A	N	D	SD
Internal auditors are seen as integral part of management					
Approving the internal audit plan, scope and budget					
Reviewing and discussing internal audit reports					
Assessing the performance of the head of the internal audit function					
Approving the audit charter and the code of ethics of the internal audit function					
Reviewing discoveries of fraud and violations of laws and regulations as raised by the head of the internal audit function					
Approving, or recommending to the board for its approval, the annual remuneration of the internal audit function as a whole, including performance awards					

Approving, or recommending to the board for its approval, the appointment, reappointment or removal of the head of the internal audit function and the key internal auditors					
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