

UNIVERSITY OF CAPE COAST

INTERNAL AUDIT AND CORPORATE GOVERNANCE AT GHANA  
WATER COMPANY LIMITED: THE STUDY OF CAPE COAST  
METROPOLIS IN THE CENTRAL REGION, GHANA

BY

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Fulfillment of the Requirements for the Award of Master of Business  
Administration Degree in Accounting.

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**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 Signature..... Date: .....

Name:.....

**Supervisor's Declaration**

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

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

Name:.....

## ABSTRACT

Effective corporate Governance practices requires appropriate internal audit practices to enhance efficiency. The main purpose of this study was to ascertain the practices of internal audit and corporate governance at Ghana Water Company Limited at the Central Region in the Cape Coast Metropolis. The specific objectives were: identify the Internal Audit practices in Ghana Water Company Limited, assess the corporate governance framework of Ghana Water Company Limited, assess the role of internal audit practice on good corporate governance in Ghana Water Company limited and examine how Corporate Governance practices can be enhanced through audits in Ghana Water Company Limited in Central Region. The population for the study was 72. The simple random sampling was employed to select a sample size of 61. The researcher administered questionnaire to gather information from the respondents. Quantitative analysis and regression analysis were used as data analysis technique. Descriptive statistics such as frequency distribution tables were used in the analysis of data. From the findings, the study revealed that there was greater variation in corporate governance Ghana Water Company due to changes in internal audit control, independence of internal audit function and Good ethical behaviour of auditors. The study also established that there was a strong positive relationship between corporate governance Ghana Water Company and internal audit controls, independence of internal audit function, professional and good ethical behaviour of auditors. Auditors work closely with managers to review operations. The internal auditors are instrumental in guiding and evaluating the efficiency and effectiveness of an organization's operations and systems, and will be accountable to a governing body. The study recommends that management Ghana Water Company should adopt effective internal audit practices such as internal auditing standards, independence of internal audit, professional competency and internal controls to enhance the corporate governance practices of the Ghana Water Company.

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**DEDICATION**

To my family, Edna, Thelma, Terry, Theodore and my friends of the  
accountancy profession

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## LIST OF ABBREVIATIONS

CG	Corporate Governance
GWCL	Ghana Water Company Limited
IA	Internal Audit
IAS	Internal Audit Standards
IC	Internal Controls
IIA	Institute of Internal Auditors
PC	Professional Competency

## CHAPTER ONE

### INTRODUCTION

The increasing need for transparency in corporate operations and financial reporting is of paramount importance for an organization in order to be successful at this unstable period for the economy. Consequently, internal audit and corporate governance have attracted much attention by authorities and researchers (Dewing & Russell, 2004). Corporate governance defines the corporate structure of an organization, the relationships and responsibilities of the various parts of the organization and ensures the transparency in these relationships. On the other hand, internal audit is considered as a tool for enhancing transparency, regarding financial information which is used by stakeholders of the organization.

The internal audit function has build a strong relationship with those charged with organisation governance and communicates directly to the audit committee. There is much evidence today that such a reporting relationship is being widely viewed as a best practice in the most progressive corporation committed to enhancing governance structure. Effective governance arrangements require directors to identify risks, as well as potential opportunities, and ensure the establishment of appropriate and practices to manage all risks associated with the organization's operations.

#### **Background of the Study**

According to Hermanson and Rittenberg (2003), the function of internal audit activity has now developed and expanded to that of compliance work, risk management and control governance. Internal audit now plays a

serious role in improving corporate governance in organizations (Okafor & Ibadin, 2009).

According to Sarens (2007), internal audit plays a key role in helping the board of directors to discharge its responsibilities and it is the responsibility of an audit committee to ensure that the audit team is functioning efficiently and effectively. Abbott, Parker, Peter and Raghunandan (2003) are of the opinion that the board of directors of an organization can influence the level of audit assurance by exercising decision rights and implementing corporate governance responsibility.

According to Institute of Internal Auditors (2009), internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes. Thus, internal auditing is being performed by professionals with a thorough understanding of the business culture, systems and processes, the internal audit activity which offers guarantee that internal controls in place are sufficient in order to alleviate the risks, governance processes are helpful and competent, and organizational goals and objectives are being met (Institute of Internal Auditors, 2009). The internal auditor's role is generally seen to involve oversight and monitoring. The internal auditor may be instrumental in guiding and evaluating the economy, efficiency and effectiveness of an organization's operations and systems, and will be normally accountable to a governing body. It is important therefore, that the

internal auditor be reasonable independent of management as well as be able to work alongside them (McCall, 2002).

Good governance is considered essential to effective service delivery to the people. Corporate governance can be enhanced by increasing corporate accountability and maximizing sustainable wealth creation (Higgs, 2003). Adams and Mehran, (2003) define corporate governance as "the mechanism through which stakeholders (shareholders, creditors, employees, clients, suppliers, the government and the society, in general) monitor the management and insiders to safeguard their own interests." Morin and Jarrel (2001) define it as follows: It is a framework through which monitors and safeguards the concerned actors in the market (managers, staff, clients, shareholders, suppliers and the board of administration."

It is management through which the company is guided and monitored for the purpose of striking a balance between its interests, on the one hand, and the interests of other related parties such as investors, lenders, suppliers and clients in addition to the environment and society. Moreover, it determines the relationships between management, ownership and other interested parties of the organization and sets corporate goals (Broni & Velentzas, 2012). The aim of corporate governance is to ensure that the organization will be directed under specific guidelines which will serve the interests of every party of the organization, including the board of directors, managers, employees, suppliers, customers and others stakeholders. Finally, it is important for the corporate governance structure of an organization to comply with each country's formal laws and regulations, the generally accepted accounting principles, the ethical standards and the cultural differences (Dühnfort, Klein & Lampenius, 2008).

The crucial importance of corporate governance is confirmed by increasing concern of authoritative bodies, which provide organizations with guidelines and regulations about corporate governance to which companies must adhere. The Organization for Economic Cooperation and Development (2004), proposed six principles concerning corporate governance. The first principle states that corporate governance must be built upon a framework of laws and regulations imposed by the authorities. It emphasizes the need for protection of shareholders' rights as well as the equitable treatment of shareholders.

Otieno (2012) is of the opinion that corporate governance deals with issues of accountability and advocating for implementation of guidelines and mechanism to protect shareholders. Luguterah and Dwomoh (2017) argued that the governance principle of public participation is especially critical for improving service delivery in the society. It is critical for effective service delivery in the Ghana Water Company Limited. Ghana Water Company Limited (GWCL) is a state owned institution and responsible for potable water supply to all urban communities in Ghana.

The Ghana Water Company Limited (GWCL) in Ghana experiences numerous challenges in service delivery to communities, resulting in the community's needs and demands not being efficiently addressed. It is believed that service delivery can best be enhanced if the governance structures of the public service are allowed to function appropriately. Many people are of the view that adopting good governance principles, such as accountability, transparency, rule of law and active public participation, may improve service delivery at the GWCL. It further suggests that governance structures should be



improved to promote services to the marginalize communities in Ghana. Ghana Water Company Limited (GWCL) is a utility company, which is fully owned by the government of Ghana. The company is responsible for the supply of drinkable water to all urban communities in Ghana.

In the Ghana Water Company Limited, corporate governance involves the way Ghana Water Company Limited are managed by the board of directors and the top management, which affects Ghana Water Company Limited objectives, plans and policies, taking into consideration making appropriate economic returns for founders and other shareholders, day-to-day work management, protection of the rights and interests of recognized stakeholders (shareholders and depositors), companies' commitment to sound and safe professional behaviors and practices which are in conformity with regulations and legislations, (Linyiru, 2006).

### **Statement of the Problem**

According to Barasa (2006) public sector utilities in developing countries have often not been efficient in providing access to reliable water and sanitation, and accountability in terms of financial statements, accounting reporting and standard, regulation and governance and internal audit controls and auditing standards. Issues concerning corporate governance in Ghana Water Company are receiving increased attention since the organisation's corporate governance affects its performance and the ability to access long term investments (Mordelet, 2009). Price, Waterhouse and Cooper (2007) argued that organisation's that exhibit good governance enhances investors confidence. The relationship between internal auditing and corporate governance has increased significantly in recent years. Auditing regulations

from society and the auditor's own rules and regulations have forced a closer view on internal control and audit.

The internal auditing function is a key ingredient in corporate governance regulations. It is the direct responsibility of management and audit committee to set up and monitors the internal control framework of a company. The role of internal auditor, particularly with regard to corporate governance in Ghana Water Company Limited in Cape Coast Metropolis, can only be fully appreciated if the internal auditing function is properly understood. The purpose, authority, and responsibility of the internal audit activity must be formally defined in an internal audit charter, consistent with the Definition of Internal Auditing, the Code of Ethics, and the Standards.

Corporate governance can act as a tool for protecting investor's interests, provide a stable environment and contribute to the economic growth of an organization. Additionally, the implementation of an appropriate corporate governance structure reduces agency costs which are the result of the principal- agent problem. This is supported by Core, Holthausen & Larcker (1999), who state that organizations, which do not invest in corporate governance, have higher agency costs as their managers' personal interests are often not in line with the organization's interests.

Although there are significant number of studies which examine the relationship between internal audit, corporate governance and audit committee, there is a lack of such a research concerning the Greek market (Drogalas, Pantelidis, Vouroutzidou & Kesisi, 2011). This is due to the fact that it is only recently that internal audit has begun to attract the attention of Greek companies and as a result there are still some critical factors which need

to be identified and reviewed. There are studies that indicate the factors which improve corporate governance. In the majority of these studies, it is stated that there is a positive relationship between the internal audit and corporate governance (Paape, Bannerman, Zhao & Lee, 2003; Krishnan, 2001; Suyono & Hariyando, 2012; Sarens & Abdolmohammadi, 2011) whereas some others raise doubts about this relationship (Regoliosi & d'Eri, 2014; Goodwin-Stewart & Kent, 2006).

Although the role of internal audit is great in the corporate governance, it appears there are little studies done to examine the role of internal auditor in corporate in Ghana Water Company Limited in Cape Coast Metropolis. It is against the background that the researcher wants to study the role of internal audit in corporate governance in Ghana Water Company Limited in Cape Coast Metropolis.

### **Purpose of the Study**

The main purpose of this study is to examine the role internal auditors and corporate governance at Ghana Water Company Limited at the Central Region in the Cape Coast Metropolis.

### **Objective of the Study**

Specifically, the study sought to:

1. Identify the Internal Audit practices in Ghana Water Company Limited in the Cape Coast;
2. Assess the corporate governance framework of Ghana Water Company Limited in Cape Coast;
3. Assess the effects of internal audit practice on good corporate governance in Ghana Water Company limited in Central Region;

### **Research Questions**

The research objectives will be turned to the following research questions:

1. What are the Internal Audit practices in Ghana Water Company Limited in the Central Region, Cape Coast?
2. What is the corporate governance framework of Ghana Water Company Limited in Central Region, Cape Coast?
3. What are the roles of internal audit practice on good corporate governance in Ghana Water Company limited in Central Region?

### **Significance of the Study**

The study seeks to contribute to knowledge and literature. It will serve a source of reference to researchers, academics, fellow students, policy makers, and other stakeholders who are interested in effect of internal audit on corporate governance practices of Ghanaian companies. The study will also benefit the management of an Ghana Water Company by enabling them to review their corporate governance procedures and improve on areas of weaknesses. This research will be important to auditors as it will guide them on ways that they can help organizations improve on the corporate governance structure, policies among other things. In the case of stakeholders such as investors, shareholders, employees, pressure groups, consumer associations, the study provides information that suggests to the improvement in corporate governance of the respective businesses in Ghana.

### **Delimitation of the Study**

The study covered the internal audit and corporate governance practices in Cape Coast due to easy availability of data collection Central Region. However, the study could not cover other regions due to limited time and financial constraints.

### **Limitations of the Study**

The study focused on corporate governance practices of Ghana Water Company in Cape Coast Metropolis. In collecting the data to help examine the level of corporate governance practices, the respondents were not willing to give the necessary information to support the study. There were some challenges of time and financial constraints. However, this did not affect the results of the study.

### **Organisation of the Study**

The study was organised in five chapters. Chapter one comprised the background of the study, statement of the problem, purpose of the study, limitations, delimitations, significance of the study, definition of terms and organization of the study. The second chapter deals with the review of related literature. It also captures the theoretical and conceptual framework. The third chapter presents the research methods; it contains research design, population, sample size and sampling techniques, instrumentation, data collection procedures and data analysis techniques. Chapter four dwells on results and discussion. Chapter five covers the summary, conclusions, recommendations and suggestions for future research.

## CHAPTER TWO

### LITERATURE REVIEW

#### Introduction

This chapter will present the literature review related to the study. Specifically, the study will look at internal audit practices, corporate governance framework, role of internal audit on corporate governance, how to enhance corporate governance and corporate governance empirical review, the conceptual framework.

#### Review of Theories

Various theories have been formulated on internal audit and financial performance. They include Agency Theory and The Stakeholders Model. These are discussed below:

#### Agency Theory

According to Adams (1994), Agency theory is concerned with resolving problems that can exist in agency relationships; that is, between principals (such as shareholders) and agents of the principals. The two problems that agency theory addresses are: the problems that arise when the desires or goals of the principal and agent are in conflict, and the principal is unable to verify what the agent is actually doing and the problems that arise when the principal and agent have different attitudes towards risk. Because of different risk tolerances, the principal and agent may each be inclined to take different actions.

Adams (1994) in his article stated that Agency theory can provide richer and more meaningful research in the internal audit discipline. Agency theory contends that internal auditing, in common with other intervention

mechanisms like financial reporting and external audit, helps to maintain cost-efficient contracting between owners and managers. Agency theory may not only help to explain the existence of internal audit in organizations but can also help explain some of the characteristics of the internal audit department, for example, its size, and the scope of its activities, such as financial versus operational auditing.

Agency theory argues that internal auditing provides assistance in maintaining cost efficient agreement between managers and owners. Hence, internal auditing is similar to other intervention mechanisms such as external audit and financial reporting (Saren, 2007). Adams (1994) states that agency theory provides support in clarifying the companies' existence of internal auditing. However, it can as well assist in providing a significant explanation of the internal auditor' characteristic with the performance of internal auditors. Agency theory recognises board of director and audit committee monitoring roles as playing a key role in mitigation agent-principle conflict. Monks and Minow (2003) state that boards are the link between the people who provide capital (the shareholders) and the people who use that capital to create value (the managers). Thus, this study focuses on the internal audit function of Thailand public limited company in response to the pressure from supervisory agencies. Their impacts on performance of internal auditors are also evaluated through agency theory recently proposed.

Moreover, this study purposed agency theory to clarify the internal audit existence, the nature of the internal audit function and the specific approach adopted by internal auditors to their work can also forecast how the internal audit function tends to be influenced by the internal auditors'

characteristics and corporate governance of the company. Thus, agency theory offers a foundation for invaluable research. This can be beneficial to both the profession of internal auditing and the academic community.

It is clear that audits serve a fundamental purpose in promoting confidence and trust in certain financial information in financial statements. The principal-agent conflict as depicted through agency theory is of particular importance in this respect and sheds light on the development of the internal audit in Ghana over the centuries. Concern about trust and the reliability of financial information helps to explain why the internal audit is seen as an important mechanism for shareholders to help ensure that the directors are running the company in the shareholders' best interests. Agency theory is beneficial as an economic theory of accountability. It offers assistance in explaining the development of the audit.

Jensen and Meckling (1976) states the agency theory assumes that a firm contains a link of contracts connecting the owners of cost-effective resources (the principals) and managers (the agents) who are charged with using and controlling those resources. Additionally, agency theory offers a theoretical framework that is beneficial for the research in the function of internal auditing. Purposes of the agency theory explain and forecast the internal audit existence. It explains the responsibilities and roles given to internal auditors by the organization and forecast how the function of internal audit is possibly be affected by organisational change.

The agency theory stated that the board of directors and audit committee might mitigate agency problems leading to reduced agency cost by aligning the interests of controlling owners with those of the company. This



study can be interpreted in these mechanisms as practices or regulations resulting from coercion by legislators who impose certain practices in order to improve organizational effectiveness. Agency theory and the principal-agent problem highlight the importance of corporate governance for an organization because with the appropriate structures and policies of corporate governance, a better communication between management and ownership can be achieved and the interests of both parties can be aligned (Rustam, 2013).

Corporate governance can act as a tool for protecting investor's interests, provide a stable environment and contribute to the economic growth of an organization. Additionally, the implementation of an appropriate corporate governance structure reduces agency costs which are the result of the principal- agent problem. This is supported by Core et al., (1999) who state that organizations, which do not invest in corporate governance, have higher agency costs as their managers' personal interests are often not in line with the organization's interests.

### **The Stakeholders Model**

In defining 'stakeholder theory' (1994) states: "The firm" is a system of stake holders operating within the larger system of the society that provides the necessary legal and market infrastructure for the organisation's activities. The purpose of the organisation is to create wealth or value for its stake holders by converting their stakes into good and services. This view is supported by Blair (1995) who proposes: the goal of director and management should be maximizing total wealth creation by the firm. The key to achieving this is to enhance the voice of and provide ownership-like incentives to those participants in the firms who contribute or control critical, specialized inputs

(firm specific human capital) and to align the interests to these critical stakeholders with the interest of outside, passive shareholder. Consistent with this view by Blair to provide ‘voice’ and ‘ownership’ like incentives” to critical stakeholders’.

Relating this to the current study, a good corporate governance framework should recognize the rights stakeholders has, as established by law. Such a framework should encourage active cooperation between corporations and stakeholders in creating wealth, jobs, and the sustainability of a sound enterprise. To achieve this, corporate governance should ensure that: The rights of stakeholders are protected by law; The rights of the shareholders are respected, Stakeholders have the opportunity to redress any violation of their rights, Permit performance enhancing mechanism for stakeholders’ participation, provides stakeholders with access to relevant information to enable them participate actively in the governance process leading to the performance of the organisation (Blair, 1995)

### **Review of key concepts and principles**

Saud and Marchand (2012) explained that Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization’s operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes. Providing the difference between independence and objectivity Saud and Marchand, (2012) further explained that Independence: The freedom from conditions that threaten objectivity or the appearance of objectivity, such threats to objectivity must be managed at the individual auditor, engagement,

functional and organizational levels; on the other hand, “Objectivity: 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 to that of others.

According to the Institute of Internal Auditor Research Foundation (2008) an internal auditor is a forward looking individual, who knows and understands business systems and ensures the management that they operate rightly and achieve firm goals. Internal auditors play key role in the world of business. Internal auditors review organizational goals, processes and operations and provide professional advice to the management.

Internal audit is acting from the watch tower of the business operations in order to support the governance of the business. This occurs right from origination of economic, financial and accounting transactions, recoding and fulfilment of individual and collective responsibilities. Meaning that right from inception, Internal Audit Function (IAF) is being identified as a tool that assures the workability of the corporate governance. Internal audit function (IAF) is an increasingly common internal governance mechanism, on a firm's financial reporting quality (Johl, Johl, Subramaniam, & Cooper, 2013).

The Internal Audit is an instrument of administrative control and systematic verification of the effectiveness and efficiency of occupational activities in the company; it evaluates the entity's internal controls and its administrative and occupational processes, analyzing the failures and the risk involved and gives broad based recommendations for remediation of

anomalies. The Internal Audit work aims to protect the company's assets against frauds or intentional misstatements. Classified by Moyes, Young, Din, (2013) as i) misstatements resulting from fraudulent financial reporting and ii) misstatement resulting from misappropriation of assets.

According to IIA (2011) the primary aim of internal auditing is to assist management of firms to achieve the corporate goals, providing the assurance that management has implemented a satisfactory internal control system to prevent risks. Consequently, internal auditing provides internal consulting services to all levels of the organization in terms of training, advices, facilitation and counsels). The Institute of Internal Auditors (2000) stressed on the section related to objectives in respect of internal auditing responsibilities as "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. 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.

The Institute of Internal Auditing (2011) explained that internal auditing can be categorized into internal control, corporate governance and risk management. Also, the Institute of Internal Auditing (2009) stressed further that internal auditors play a key role in risk management and providing consultants and assurance services to the executives. In the first place, the Institute maintained that the role of Internal Auditing in Enterprise-Wide Risk Management (ERM) is a direction to Internal Auditors to play the role in the

enterprise risk management procedure. Again, concerning consulting services the Institute of Internal Auditing reported that four basic activities for internal auditor to be accountable, are coordinating Enterprise-Wide Risk Management activities, maintaining and developing the Enterprise-Wide Risk Management framework, facilitating the identification and evaluation of risks, and for the board support developing of risk management strategy.

### **Corporate Governance Framework in Ghana**

The regulatory framework for an effective corporate governance practice in Ghana is contained in the Companies code 1963 (Act 179), Securities Industry Law 1993 (PNDC 333) as revised by the Securities Industry (Amendment) Act, 2000 (Act 590) and the listing regulations, 1990 (L.I. 1509) of the Ghana Stock Exchange. In the context of this paper, the regulatory framework of Ghana for effective corporate governance has been divided into six major sections, namely: 1) the mission, responsibilities and accountability of the board; 2) committees of the board; 3) relationship to shareholders and stakeholders, and the rights of shareholders; 4) financial affairs and auditing; 5) disclosures in annual reports; and 6) code of ethics. It may be useful now to proceed to discuss in detail the various sections of the regulatory framework of Ghana. The board of directors are to ensure that the corporate entity is properly managed in order to safeguard and enhance stockholders value and to meet the corporate entity's obligation. The primary responsibility of the board of directors are to ensure that good corporate governance prevail within them. Agyemang, Aboagye, Ofoe, 2013), clearly stated that the principal duties of the board are to:

1) The strategic guidance of the corporate entity in keeping its goals.

- 2) Overseeing or supervising the management of the business.
- 3) Identification of risk as well as the implementation of systems that manage risk.
- 4) Succession planning and the appointments, training, remuneration and replacement of senior management.
- 5) Supervision of internal control system.
- 6) Maintenance of the corporate entity's communications and information dissemination policy.

According to Sifuna, (2012) corporate governance as "a system of law and sound approaches by which corporations are directed and controlled focusing on the internal and external corporate structures with the intention of monitoring the actions of management and directors and thereby mitigating agency risks which may stem from the misdeeds of corporate officers. The Cadbury Committee report defines it as "the system by which companies are directed and controlled" (Dunne & Morris, 2008). It is generally known as the framework of rules, relationships, systems and processes within and by which authority is exercised and controlled in corporations (Dunne & Morris, 2008). It concerns the ways in which a chief executive officer can enhance corporate performance and obtain a fair return on the corporation's performance (Sueyoshi, Goto & Omi 2010).). Tricker (2009) corporate governance involves regulatory and market mechanisms, and the roles and relationships between a company's management, its board, its shareholders and other stakeholders, and the goals for which the corporation is governed.

According to Shleifer and Vishny (1997) effective corporate governance is established either through a well developed legal framework

and an active capital market, or through concentrated ownership. In an extension of this argument, La Porta (1998), argued that in countries with better legal protection of shareholders, financial markets are more developed and firms have greater access to external finance and better opportunities for growth. Goergen, (2012), was of the view that corporate governance is concerned with mitigation of the conflicts of interests between stakeholders. Corporate governance provides ways of mitigating or preventing these conflicts of interests which include the processes, customs, policies, laws, and institutions which have an impact on the way a company is controlled.

Cadbury Committee, (1992) and Financial Times (2011), provide that, corporate governance has an important theme which is the nature and extent of accountability of people in the corporate business. Cadbury Committee, (1992) provides that corporate governance is the framework by which the various stakeholder interests are balanced, or, "the relationships among the management, Board of Directors, controlling shareholders, minority shareholders and other stakeholders. Corporate governance seeks to identify ways to prevent the abuse of power by administrators.

Good corporate governance assists in aligning the actions of board of directors and management with the various interests of shareholders (Jia, 2004). This helps the business be able to meet its objectives of getting returns for business owners. Proper reporting promotes corporate governance which is intertwined with the various decision made by management's formulated strategy and implemented tactics serve the best interests of the equity shareholders. Corporate governance ensures that audit rules are followed and the best practice is observed in reporting (Spiller, 2002). Business that have

good reporting are able to attract investors easily therefore making it easy to gain funding. Corporate governance has also a well proven track record of ensuring changing behaviour because it demands certain ways of going about operations within the corporation's (Harman, 2005).

### **Attributes of Corporate Governance**

Cattrysse (2005) mentioned four to seven distinct core attributes of corporate governance: discipline, transparency, independence, accountability, responsibility, fairness or equitable treatment and social responsibility. 1) Discipline involves the commitment to adhere to 'proper' behavior by management. 2) Transparency deals with aspects of timely disclosure of accurate and complete information. This information may pertain to financial statements but also to operational performance. Transparency should be applied to reports but also to any release of information. The disclosed information must be clear and easy to analyze. 3) Independence is aimed at assuring fair distribution of power and independence; as such it deals with composition of the board, appointment of committee members and auditors.

It will help to avoid conflict of interest. 4) Accountability must provide investors with the means to question the board and its committees. Accountability will ensure that the board monitors the systems of internal control, takes into account the expectations of the stakeholders in general and the shareholders in particular and that governance roles and responsibilities are sufficiently known. 5) Responsibility is all about being responsible for the actions and the decisions taken by management.

Responsibility ensures that the board is responsible for taking action should corrective intervening be called for. Responsibility equally involves



compliance with laws and regulations. 6) Fairness should be aimed at balancing the interest of all stakeholders in general and at protecting the rights of the (minority) shareholders in particular. 7) Social responsibility implies that proper priority is given to ethical values and socially corrects behavior. This will ensure a 'decent' corporate reputation. Many codes of corporate governance hold a mix of principles, guidelines and recommendations while in fact these are often nothing more than a set of rules or measures to attain the core attributes. Similar to the risk based auditing principle where the key notions are objectives, risks and control measures, corporate governance codes are largely all about attributes, risks and rules (Chen & Paulraj, 2004).

### **Principles of Corporate Governance**

Pandey (2005) opines that good corporate governance requires companies to adopt practices and policies which comprise performance, accountability, effective management control by the board of directors, constitution of board committee as part of professionally qualified, non-executive and independent directors on the board, the adequate timely disclosure of information and the prompt discharge of statutory duties. Chris (2006) sees key elements of good corporate governance principle as also include honesty, trust and integrity, openness, performance orientation, responsibility and accountability, mutual respect and commitment to the organization. Of importance is how directors and management develop a model of governance that aligns the values of the corporate participants and then evaluate this model periodically for its effectiveness. In particular, senior executives should conduct themselves honestly and ethically especially

concerning actual or apparent conflict of interest and disclosure in financial report.

The Organisation for Economic Cooperation and Development (OECD) put forward a set of international principles of corporate governance. These principles were developed both in response to growing recognition of the importance of governance to enterprise performance and to the spate of recent corporate failures in Asia, America and other parts of the world. The OECD principles are organized under five headings, namely: The rights of shareholders, the equitable treatment of shareholders, the role of stakeholders, disclosure and transparency and the responsibilities of the board.

### **The Rights of Shareholders**

This principle deals with the rights of shareholders. It concerns the protection of shareholders' rights and the ability of shareholders to influence the behaviour of the corporation. The basic shareholders' rights include the right to: Secure methods of ownership registration; convey or transfer share; obtain relevant information on the corporation on the timely and regular basis; participate and vote in general shareholder meetings; elect members of the board; and share in the profits of the corporation Fredrick (1999) noted that while these rights are important to good corporate governance, it must be noted that extensive rights in and of themselves are not equivalent to good governance.

### **Equitable Treatment of Shareholders**

This principle emphasizes that all shareholders, including foreign shareholders, should be treated fairly by controlling shareholders, boards and management. This principle calls for transparency with respect to the

distribution of voting rights and the ways in which voting rights are exercised. The high points of the principles include: All shareholders of the same class should be treated equally. Insider trading and abusive self-dealing should be prohibited, Members of the board and management should be required to disclose any materials interests in transactions or matters affecting the corporation

### **The Role of Stakeholders**

A good corporate governance framework should recognize the rights stakeholders has, as established by law. Such a framework should encourage active cooperation between corporations and stakeholders in creating wealth, jobs, and the sustainability of a sound enterprise. To achieve this, corporate governance should ensure that: the rights of stakeholders are protected by law; the rights of the shareholders are respected, stakeholders have the opportunity to redress any violation of their rights, permit performance enhancing mechanism for stakeholders participation, provides stakeholders with access to relevant information to enable them participate actively in the governance process. OECD (2004) provides that, organizations should respect the rights of shareholders and help shareholders to exercise those rights. Organizations should help shareholders to exercise their rights by openly and effectively communicating information by encouraging shareholders to participate in general meetings.

### **Disclosure and Transparency**

This principle supports the development of high internationally recognized accounting standards. This stipulates that all the material matters regarding the governance and performance of the corporation be disclosed.

This also underscores the importance of applying high quality standards of accounting, disclosure and auditing. Disclosure should include, but not limited to, material information: financial and operating results of the company, company objectives; major share ownership and voting rights; members of the board and key executives and their remuneration; and governance structure and policies information should be prepared, audited and disclosed in accordance with high quality standards, while the channels for disseminating information should be fair, timely and cost-effective.

### **The Responsibilities of the Board**

The traditional view of directors is that they serve primarily to monitor management. However, there is an emerging school of thought that directors can and should add value to the enterprise (Fredrick, 1999). The principle, which reflects the value-added approach, suggests that directors are responsible for the strategic guidance of the enterprise in addition to monitoring management. Thus, the board has a definite function to perform to ensure the strategic guidance of the company, the effective monitoring of management by the board, and the board's accountability to the corporation and shareholders.

In doing this, board members should: Ensure the independence of the board; act on a fully informed basis and in good faith, with due diligence and care, and in the best interest of all stakeholders; treat all shareholders fairly, particularly in decisions that affect different shareholder groups; and ensure compliance with applicable laws. Other principles of corporate governance include Honesty, Trust, Transparency, Performance Orientation, Integrity,

Responsibility, Accountability, Mutual Respect, Commitment to the Organization.

There are universally underlying principles of corporate governance. Different authors were wrote on these principles since 1990 when three documents about the same namely “the Cadbury Report (UK, 1992), the Principles of Corporate Governance (OECD, 2004) and the Sarbanes-Oxley Act of 2002 (US, 2002)”. Generally these authors provide principles around which businesses are expected to operate to assure proper governance. These are:

ii. **Interests of other stakeholders:** Organizations should recognize that they have legal, contractual, social, and market driven obligations to non-shareholder stakeholders, including employees, investors, creditors, suppliers, local communities, customers, and policy makers.

iii. **Role and responsibilities of the board:** The board needs sufficient relevant skills and understanding to review and challenge management performance. It also needs adequate size and appropriate levels of independence and commitment

iv. **Integrity and ethical behavior:** Integrity should be a fundamental requirement in choosing corporate officers and board members. Organizations should develop a code of conduct for their directors and executives that promotes ethical and responsible decision making.

v. **Disclosure and transparency:** Organizations should clarify and make publicly known the roles and responsibilities of board and management to provide stakeholders with a level of accountability. They should also

implement procedures to independently verify and safeguard the integrity of the company's financial reporting. Disclosure of material matters concerning the organization should be timely and balanced to ensure that all investors have access to clear, factual information. In this study integrity and ethical behavior of internal auditors together with their proficiency, independence and coordinated role of the organization will be assessed. Also disclosure and transparency of responsibilities of management to provide accountability in relation to financial reporting function will be assessed.

### **Characteristics of Good Corporate Governance Participation**

OECD (2004) indicated that participation by both men and women is a key cornerstone of good governance. Participation could be either direct or through legitimate intermediate institutions or representatives. It is important to point out that representative democracy does not necessarily mean that the concerns of the most vulnerable in society would be taken into consideration in decision-making. Participation needs to be informed and organized. This means freedom of association and expression on the one hand and an organized civil society on the other hand.

### **Rule of law**

Good governance requires fair legal frameworks that are enforced impartially. It also requires full protection of human rights, particularly those of minorities. Impartial enforcement of laws requires an independent judiciary and an impartial and incorruptible police force (OECD, 2004).

### **Transparency**

Transparency means that decisions taken and their enforcement are done in a manner that follows rules and regulations. It also means that information is freely available and directly accessible to those who will be affected by such decisions and their enforcement. It also means that enough information is provided and that it is provided in easily understandable forms and media (OECD, 2004).

### **Effectiveness and Efficiency**

Good governance means that processes and institutions produce results that meet the needs of society while making the best use of resources at their disposal. The concept of efficiency in the context of good governance also covers the sustainable use of natural resources and the protection of the environment (ibid).

### **Accountability**

Accountability is a key requirement of good governance. Not only governmental institutions but also the private sector and civil society organizations must be accountable to the public and to their institutional stakeholders. Who is accountable to who varies depending on whether decisions or actions taken are internal or external to an organization or institution. In general an organization or an institution is accountable to those who will be affected by its decisions or actions. Accountability cannot be enforced without transparency and the rule of law (ibid).

### **Role of internal audit on corporate governance**

Corporate governance is one key element in improving economic efficiency and growth as well as enhancing investor confidence. Corporate governance involves a set of relationships between a company's management, its board, its shareholders and other stakeholders. Corporate governance also provides the structure through which the objectives of the company are set, and the means of attaining those objectives and monitoring performance are determined. Corporate governance is the system by which business corporations are directed and controlled (OECD, 2004).

Effective corporate governance ensures that long-term strategic objectives and plans are established, and that the proper management and management structure are in place to achieve these objectives; while at the same time making sure that the structure functions to maintain the organization's integrity, reputation, and accountability to its relevant constituencies (Institute of Internal Auditors, 2002). Internal auditors should consider this emphasis as being on the global leading edge and recognize the contributions they can make to their audit committee to facilitate the discharge of these responsibilities' (Verschoor, 2000).

Consequently, effective communication is one of the prerequisites for sound corporate governance in general and at the same time the key for enhancing the relationship between the internal auditor, the external auditor and the audit committee. The written reports by the internal auditor, evaluating the internal control system, are one of the foremost cornerstones of the assurance the audit committee needs in the oversight process. They enable the



audit committee to fulfill one of its primary tasks: to conclude on the effectiveness of internal control.

Internal audit is designed to help the organization to reach its objectives. Fulfillment of organizational objectives defines the company's achieved success. Business objectives are organizational goals and what the company wants to achieve. If they are coherent and can be measured, they are in fact evaluation criteria of the organization's success. The organization states its objectives in a mission and vision statements. Mission statement conveys what the organization is and what it wants to achieve today. Vision statement communicates aspirations to what it intends to achieve in the future (Reding, Sobel, Anderson, Head, Ramamoorti, Salamasick & Riddle, 2013).

Business objectives' categorization is a matter of discussion and believes. COSO (Committee of Sponsoring Organizations of the Treadway Commission) categorizes them as follows (Reding, Sobel, Anderson, Head, Ramamoorti, Salamasick & Riddle, 2013):

- Strategic objectives are about what managements do and plan (strategy) in order to create value for the organization's stakeholders
- Operations objectives focuses on organization's operations in order to increase effectiveness and efficiency
- Reporting objectives are about reporting internal and external information and the level of its reliability
- Compliance objectives concentrate on existing laws and regulations and their implementation in the organization

According to Reding et.al. (2013), business objectives are measures of success for the organization, but for an internal auditor, they provide foundations for

engagement objectives. Engagement objectives are goals of an internal auditor that are to be achieved within the organization. Internal auditor's mission is to help the organization to achieve its objectives. Therefore, the proper and thorough definition of engagement objectives within given organization is vital.

Another vital point for the fulfillment of organizational objectives and sustainable success is effective risk management, control and governance process. The role of the internal auditor is to evaluate and improve those processes (Reding et.al., 2013):

- Governance process is an achievement of the organization's objectives by author-ization, directions and overseeing management by the board of directors
- Risk management is a process of understanding and dealing with uncertainties by the management of the organization. Uncertainties are all risks and opportunities that could affect (negatively or positively) organization's ability to achieve its objectives
- Control is a process of mitigating risk to the level that can be accepted by the management of the organization

Overall, the board of directors conducts (lead and guide) the governance process, while management conducts risk management and control processes. The board of directors and management's cooperation is essential to efficient implementation of all processes. Internal auditor's role is to evaluate, improve and guide through those processes. Therefore, internal auditing is also a vital point of the equation. (Reding et.al, 2013)

According to Pickett (2005), Internal auditors are able to assist top management with the following:

- Monitoring activities that top management cannot monitor itself
- Identifying opportunities and minimizing risks of failure
- Validating reports to senior management
- Protecting senior management in technical analysis that is beyond their knowledge
- Providing information for the decision-making process
- Reviewing for the future as well as for the past
- Helping line managers manage by pointing to violation of procedures and management principles

The main role of internal auditing is to add value to the organization by performing assurance and consulting activities. They need to be operational, tactical, strategic and improve operations. However, the interpretation of this role is wide. Primary duties of assistance with risk management, control, and governance processes will add a different value to the organization. In reality, it is depending on the specific needs of organizations and the sector they are operating. (Reding, Reformato, Rajagopalan, Roberts, Helbling, Chopra & Pathak, 2013)

Pickett (2005) notes that examples may be following: for organizations in the scandal-ridden industry value adding auditing service will be compliance reviews. For organisations in quickly growing sectors, value adding will be consulting advice on programs and projects. For organizations in developing countries it may be building controls and preventing fraud or

corruption. For global organizations it may be management of the risks and logistics of coordinating information with the head office and so on.

Pitt (2014) provides yet another categorization of internal audit's role based on the type of organization (public or corporate sector) rather than organization's environment as Pickett suggested it. For public sector, internal audit's role will be focused on "efficient and effective expenditure of public money" (Pitt, 2014). In the corporate setting, internal audit's role will be measured by and will be focused on his ability to satisfy stake-holders and ensure profit. To decide the scope and to interpret the role of auditing needed, the auditor will refer to audit charter.

The internal auditor will also need professional standards, mission, vision and success criteria. They should be based on the sector in which the company is operating. Determining value adding auditing services should be based on the definition of internal auditing by The Institute of Internal Auditors. It should also answer the questions suggested by Pickett (2005): Additionally, it is suggested by Pitt (2014) that understanding strategic priorities will give insight to the internal auditor of where value can be added. Moreover, the internal auditor should "strive to meet stakeholder expectations by embedding performance measurement processes focused on the most efficient and effective use of limited resources (Pitt, 2014).

As Guidance Task Force points out, most audits provide value to the organization already when they facilitate communication with management about control structure and its effectiveness. (Reding, Reformato, Rajagopalan, Roberts, Helbling, Chopra & Pathak, 2013)

However, the most important function of internal audit is to be independent. The subservient internal audit is a source of significant risk to the company. It may result in fraud, monetary loss, devastate reputation and brand or result in the company's collapse. Therefore, it is "essential for the internal audit function to have independent authority and reporting lines and have adequate access to the audit committee. Internal audit functions should be well funded, staffed, and trained, with appropriate specialized skills depending on the nature, size, and complexity of the operating environment of an organization. (Ohja, 2012) Internal auditing services provide value altogether if they are maintained in the high quality. Compliance with professional standards of internal auditing is a way to provide it.

### **Risk Evaluation and Management**

According to the Institute of Internal Auditors (IIA, 2005), it is the mandate of auditors to identify the risk facing the organization and how it impacts on the delivery of objectives. They are required to ascertain the threshold of risk for the organization and implement controls and procedures to safeguard and ensure the threshold is not exceeded. Evaluation of risk facilitates auditors to anticipate impending concerns and providing reassurance, guidance and perceptions when needed. Risk management refers to the design and implementation of actions and remedies to address risk through a reflection of potential treatments and the assortment of the most appropriate course of action (Mohamed, Uniugbokhai & Ihimkpen, 2014).

The main aim of risk management is to provide the board with an objective assurance of the effectiveness of the risk management activities of the organization. Risk taking is an essential element of financial institutions'

operations (Lienhard, 2013). Strategies are required to be incorporated in decision making regarding certain risks the business are willing to commit and how to manage and mitigate these risks (ISO, 2009). Risk evaluation and management is an important element to corporate governance which is a distinct and crucial factor in business to ensure success.

Risks arise from the direct exposure undertaken by various parties, subsidiaries and affiliates in a business (Lienhard, 2013). Business need to be in a position to help identify the various risks likely to be faced, assessing the potential impact and therefore having policies and controls for managing them effectively. Risk management and evaluation depends on the systems and practices in a business (Jabbour, 2013). They will differ according to the size and scope of the business and the type of risk faced.

To manage risks properly Boards of directors and Management have to fully understand risk the company's facing (ISO, 2009). Management should regularly oversee and review the risk management policies and practices by ensuring that they are appropriate and effective in changing circumstances (Kaplan & Mikes, 2012). The management should seek assistance from auditors in ensuring that these set controls are performing effectively and that any financial records are in compliance with the regulatory authorities and limits (Allen & Vani, 2013). It should establish in the business to ensure all records are accurately presented since this help in decision making.

### **Evaluating Controls and Operations**

Auditors work closely with managers to review operations such as systems, processes and people and report finding. According to the IIA (2011), audit is defined as being the objective activity of certification and consultation

that seeks to streamline the operations of a company. The institute defines evaluating controls and operations as assessing the attitude and actions of the board and management regarding controls within a company (IIA, 2011). Internal auditors are responsible for financial operations and controls and are important elements of corporate governance because of their knowledge in financial reporting having a primary contribution to ensuring reliability and integrity of financial statements (IIA, 2011).

There is a need for auditors to be familiar with the strategic objectives of the organization and different departments to have a clear understanding of the operations (IIA, 2005). The process of corporate governance is concerned with the development and maintenance of an adequate and effective audit system to protect assets loss (Ahmad & Taylor, 2009). The internal audit activity must therefore evaluate the adequacy and effectiveness of controls in responding to risk within the company's controls (IIA, 2011).

### **Advising Managers**

The auditors are tasked with the responsibility of advising managers on issues of financial reporting and accountability in the daily operation of a company (Ahmad & Taylor, 2009). The corporate board of directors and top managers are faced with an evolving landscape of corporate governance regulations and requirements (Burnaby, Abdolmohammadi, Hass, Sarens & Allegrini, 2009) which has had an implication on the day to day operation. Therefore, there is need for auditors to advise managers on various aspect of financial reporting which helps in ensuring best practices and the interpretation of this regulation.

The auditors are important in advising the managers on various matters which concern financial reporting. This helps in coping with a range of new standards and regulatory requirements which may be misunderstood without the input of auditors (Wicaksono, 2009). The auditors also help in the creating of good financial records that can be used by managers to understand the status of the company.

### **Providing Opinions on Financial Statements**

Delloite (2005), are of the opinion that for an auditor to express a professional opinion on financial statements of an organization they must be able to scrutinize the financial statements and supporting records using sound auditing practices. Price water house Coopers International Limited (PWC, 2014), state that expressing an opinion is an auditor's responsibility. The opinion should be reasonable guarantee that the financial statements are free from material misstatements and that they are a just presentation in accordance with the relevant accounting standards. External auditors provide opinions on the extent to which financial statements meet accounting standards. Organizations often have clean opinions which state that its financial statements in all material respects do follow the common accepted accounting principles (Schwartz & Mayne, 2005).

According to Gilbertson, Lehman and Gentene (2012), stockholders want assurance that a company's financial statement accurately presents its financial conditions and results of operation. Further, they ascertain that company's hire auditors to audit financial statement to provide assurance and provide written opinion on whether this statements can be relied upon. Auditors examine accounting records then form opinions According to



Schwartz et al. (2005), financial opinions give assurance to the people that qualified auditors have scrutinized the organizations financial statement and the supporting information provided since they rely on financial statements to make economic decision to minimize the uncertainty and risk.

### **Enhancing Corporate Governance through Audit Ghana water company**

#### **Setting and Enforcing Clear Lines of Responsibility**

Good corporate governance needs effective and appropriate regulatory, legal and institutional basis. A variety of elements which include the laws and regulatory framework, and financial accounting standards have an effect on the setting of clear lines of responsibility on auditing (Chiang, 2005). Effective enforcement of clear responsibility is thus necessary to identify who is responsible for auditing in the organization so as not to have ambiguities (Bozec & Dia, 2005). Ambiguities and gaps are required to be filled so as to identify who is responsible for certain responsibility of auditing in an organization (Balic, 2007). Corporate governance and its enforcement endeavors are intimately linked to the firms' ability to commit to their stakeholders expectation and external investors (Evans, Evans & Loh, 2002). Where there is a weak enforcement environment it makes it harder for companies to be able to commit to honoring of financial contracts and being able to attract external financing (Balic, 2007).

#### **Ensuring Timely and Effective Information Policy**

According to Rosengren (1998), the ensuring of effective information policy in the banking industry ensures timely disbursement of information to the respective stakeholders. Transparency and timely information policy is key to ensuring corporate governance in the banking sector. Information policy

determines what; will be information, will be disbursed and in what intervals to ensure that stake holders are informed of the company's performance and operations (Sandeep, Patel & Lilicare, 2002). This helps the stakeholder to be able to understand what the businesses are doing and their performance. The information policy is guided by regulation from government on financial reporting. In Uganda bank failures were associated to the lack of information on their operations (Yunusu, 2001). Tadesse (2006), survey found out that banking crises were less likely in countries which encouraged banks to have information policies. Having an information policy ensured that there was good corporate governance in the banks (Tadesse, 2006).

### **Promoting Appropriate Ethics and Values**

A study by Treviño, Weaver and Gibson, Toffler (1999), showed having specific characteristic of ethics in auditing had an impact on the corporate governance of companies. This study found that consistency in company's action towards policy that led to action of ethics ensured that there was creation of financial statements that were truthful. Collins (2001), asserted that leaders are responsible for promoting a culture of ethics and values in the organization that are instrumental in ensuring information produced by the organization is truthful.

### **Clarifying Board's Role in Strategy**

The effective execution of policy and strategy in an organization is necessary to fulfil the other roles necessary for achieving the organizational goals (Beasley, Chen, Nunez & Wright, 2006). Policies and strategy act as guides and help define the focus in which direction the organization is heading and differentiating the responsibilities between the board, the management,

and the employees (Beasley & Frigo, 2010). Well written policies lead to a more efficient board functioning and clear purpose. One of the roles of a board of directors are to create strategies for the organization. Boards are tasked with various decision making which revolve around the organization's mission, vision, and strategies. Boards make decisions about issues affecting the organization significant matters like how to ensure that financial reporting is done properly (Belobaba, 2009).

### **Enhance Information Transparency**

Recent demands of investors and others for greater accountability from corporate boards and audit committees will likely further enhance the quality of managerial stewardship and eventually lead to more efficient capital markets (Cohen, Krishnamoorthy, & Wright, 2004).). In addition, software technologies having governance controls improve the information quality and veracity. McIvor, McHugh and Cadden (2002), showed that internet technologies have the potential to facilitate the achievement of transparency within public sector organisations. Further, the connectivity that automatically results from Internet technologies can exert a very powerful influence in encouraging a free flow of ideas around the organisation, permitting individuals and organisational units to converge and interconnect.

Stakeholder's value is improved when a business treats its shareholders, employees well, serves its customers well, maintains good relationships with suppliers, and ensuring legal compliance. A corporation has the responsibility of communicating candidly and effectively with all stakeholders. The main goal of stakeholder's communications is to help the stake holders be able to understand the business financial condition,

performance, risk profile, and operating and trends of the corporation (OECD, 2004). The Basic stakeholders' rights in a business include the right to securing methods of ownership registration, conveying transfer shares, obtaining relevant and material information on the corporation performance on a timely basis, participating in voting on the general shareholder meetings, electing and removing members from the boards and sharing in the profits of the corporation (OECD, 2004).

Stakeholders have the right for participating in, and being adequately informed on various decisions regarding important factors in corporate changes such as; amending to the statutes, or articles of incorporation or similar governing documents of the company; the authorization of more shares; and any extraordinary transactions, which include any transfer of all or considerable number of assets, that in effect will result in the sale of the company (OECD, 2004).

### **Empirical Review**

Several studies on internal auditing have been carried out both locally and globally. Locally studies have been done by researchers such as Chepkorir, Kibara and Kibet. Chepkorir (2010) in his study "the roles and challenges of internal auditing in the banking industry in Kenya: observed that the general roles of internal auditors is to provide assurance to management and the audit committee that internal controls are effective and working as intended, examining and assessing organization policies, procedures, manuals and recommending best practices, risk assessment and management, and finally evaluation of projects and programs accomplishments.

Defining the reviewed scope of internal audit, Bou-Raad (2000) has stated that it is the most important function that provides the information required within an organization with respect to corporate governance matters. The fact that internal audit interacts with the other control bodies of an organization, as a process of monitoring, and that its consulting role adds value to an organization, has established internal audit as one of the most important factors that define and improve corporate governance structure.

The study of Paape, Scheffe and Snoep (2003), provides some indicative results about the perceptions of auditors concerning the relationship between corporate governance and internal audit. In this study, it is stated that 40% of the respondents believe that one of the most important factors in implementing internal audit is corporate governance. According to above research, 79% believes that changes in corporate governance will redefine the role and the responsibilities of internal audit while 93% believe that one of the most important objectives of internal audit is the harmonization with the company's policies rules and regulations.

Regarding internal audit in Greece, Drogalas Pantelidis, Vouroutzidou and Kesisi (2011), pointed out the absence of surveys examining the relationship between internal audit and corporate governance in Greek companies. The authors describe the relationship between internal audit and corporate governance by presenting the relevant literature and highlight the factors affecting this relationship. One of the findings is that internal audit has become more management-oriented than it was in the previous years. In this concept, it is stated that internal audit by providing the assurance and the consulting services, can contribute to efficient corporate governance in order

to lead the company to managerial excellence and also to attract new investors for smaller firms.

In a more recent survey regarding the public sector in Greece, Drogalas et al. (2014) have examined the extent of internal audit's implementation in Greek Police departments and the value added to this public organization by the implementation of internal audit. The results generally indicated that the implementation of internal control successfully monitors organization's activities, protects its assets, prevents fraud, detect and correct errors and guarantees the accuracy of financial statements. Along those lines, the need of updating the internal audit framework in Greek public organizations and implementing more specific regulations is highlighted.

In the study of Cohen et al. (2002), auditors as a part of the internal control system of a company, are considered as important actors in the corporate governance field. In the same study, the association between the audit process and the corporate governance is enhanced by the fact that weak corporate governance structures seems to cause a decrease in the quality of financial information reported and even to result in financial fraud. The above is also in consistence with Krishnan's study (2001) who finds that problems in internal audit procedures are related to weak governance structures.

Another conceptual study of Karagiorgos et al. (2010) reviews the conceptual framework of internal audit and corporate governance and the existing literature concerning these two rapidly developing fields. The authors indicate the most important elements of corporate governance to be the board of directors, the top management, the audit committee and external audit. Finally, the authors propose further research to examine the interaction

between the above elements of corporate governance and the internal audit process.

Suyono and Hariyando (2012) in a more recent study examine the association of corporate governance with internal control, internal audit and organizational commitment. Their results show that internal control and internal audit have a positive significant relationship with good corporate governance. Moreover, in the study of Sarens and Abdolmohammadi (2011), it is shown that the size of companies' internal audit departments and therefore the internal audit plan, depends on the various elements of corporate governance, such as the obligation of the company having an internal audit department, the percentage of external members in the board of directors or the control environment.

Regoliosi and d'Eri (2012) in their study tried to examine the relationship between the various elements of corporate governance and the quality of internal audit departments. The results of their survey partly confirm the relationship between the two fields, because, while some of the corporate governance elements seems to be positively affect internal audit quality, this relationship is not confirmed for all the variables of corporate governance. In line with the above study, Goodwin- Stewart and Kent (2006) do not find a strong support for the relationship between internal audit and "good" corporate governance.

Mgimba (2013) assessed the role of internal audit in corporate governance taking Vocational education and training authority as the case study. The study employed the case study design accompanied by qualitative research approach with quantitative aspects. Using purposive sampling, a total

of 20 respondents took part in the study involving the audit function staff member, finance and procurement department and the senior staff. Methods of data collection used were documentary analysis, interview, observation and focus group discussion. Tools or instruments used were interview questions, questionnaires, observation schedule, documentary review and focus group discussion.

All the generated data were subjected to content analysis for the purpose of obtaining themes and sub-themes of the study. The study indicated that (i) VETA have well established board and audit committee (ii) internal audit is a vital catalyst machine for the corporate governance operation to be successful. (iii) The corporate governance relies on the internal audit information to make their strategic decisions. (iv) the internal audit function must be supported to ensure that audit function is done effectively (vi) the organization system should not undermine the power of the internal audit.

Fama (1980) used agency theory to examine the hierarchical relationships in large multidivisional companies. In this context, the company's top management is viewed as the principal who delegates responsibility and authority to subordinate managers (agents) for effective utilization of a portion of the firm's resources, leading to the possibility of moral hazard problems between divisions and top management.

Top management tries to mitigate this problem by instituting organizational controls, including internal auditing (Miguel, 2002). Good governance in a firm is a tool for organizational strategy and the key to performance. The corporate governance purposes to increase the firm



performance and to harmonize the various interest groups (Morariu, Mitea, Stoian, & Crecana, 2009).

Previous research indicates that corporate governance plays a vital role in an effective performance of internal auditors (Grambling, 2004). Grambling (2004) states that one of the four cornerstones of corporate governance is internal audit function. Hence, the internal auditing function of internal auditors has an important role in assisting the board of directors monitor the effectiveness of its governance. Thus, the effectiveness of internal audit helps the company to operate in accordance with standards and regulations by evaluating a specific controls and procedures and ensure that those charged with governance that internal company processes are adequate and functional. It is recommended that effective internal auditing in organizations requires the work to be of a high standard, quoting the IIA's international standards as an example of what should be required by audit committees.

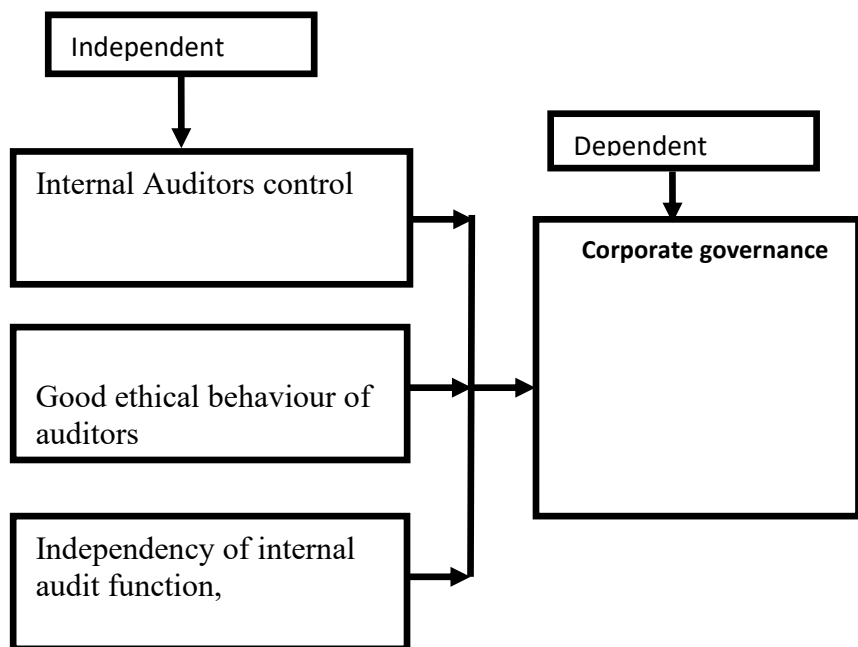
Sarens and De Beelde (2006), found that effective and efficient internal control system enables organisations to respond accordingly to significant business, operational, financial, compliance and other risks. Verschoor (2006) maintains that a crucial part of the internal auditor's work includes clarifying their roles in assurance and consulting as well as ensuring risk based audits add value. (Allott, 1996) found that internal auditors can assist businesses in managing their risks more effectively by identifying problems and suggesting value adding improvements to the organizations.

A similar rationale could be used to explain the roles and relationships that exist within an organization, and which involve the internal auditor contracts can and, using agency rationales, should be made to constrain self-

serving managers on behalf of shareholder principals. Agency cost, such as internal monitoring, will then be incurred internally. The Sarbanes – Oxley Act 2001 provides an example of how the internal auditor can be placed in a monitoring’ position, not only to shareholder-owners but also by requiring them to report to the public (Chan, 2004).

**Conceptual Framework**

Based on literature review, both theoretically and empirically, researchers describe the thought patterns of the relationship between: the implementation of Internal Audit, Implementation of Good Corporate Governance and Corporate Performance with a diagram as follows: The figure below shows the conceptual framework used in this study. The model suggests that corporate Governance in Public Sector is the function of effective internal audit services.



*Figure 1: Conceptual framework for the analysis of internal auditors’ role on corporate governance.*

Source: Cofie (2018).

From the conceptual framework it can be observed that effective internal audit function is made possible by having independent internal audit function, proficient auditors, Good ethical behaviour of auditors and Good coordination. Adequate independency of internal audit function, proficient auditors, Good ethical behaviour of internal auditors and good coordination when combined with good control environment, result into good corporate governance. In order to work properly, internal Audit functions require having independency from the clients who are being audited.

Moreover, the efficiency of the function requires internal auditors to possess the knowledge, skills and other competencies needed to perform their responsibilities professionally. Also, for proper functioning of the internal audit, internal auditors need to be ethical and their activities need to be well coordinated with those of other assurance providers. When the Public Sector Internal Audit function is not independent, internal auditors are not proficient and ethical and when there is no coordination between internal auditors and other assurance providers, the Governance will be poor.

The independent variables are independency of internal auditors, proficiency of internal auditors, and ethics of internal auditors and coordination of audit functions as. If the above factors are performing as required the expected results are Good governed Public Sector demonstrated by transparency, accountability, effectiveness and efficiency. However, when the above factors are opposite Governance in Public Sector will be poor and will be shown by lack of transparency, lack of accountability lack of efficiency and effectiveness. The relationship is represented as follows:

### **Chapter Summary**

This chapter has reviewed literature on the importance of various roles of internal audit for corporate governance. These include the roles of internal auditor as a ‘monitor’, and as an agent. The chapter also captures the relationship between corporate governance, internal audit; agency theory and the role in internal audit; and also various local and international empirical studies. The chapter has also tackled the challenges of internal audit roles in promoting effective corporate governance.

## CHAPTER THREE

### RESEARCH METHODS

#### **Introduction**

This chapter presented the methods used by the researcher in carrying out the study. These include research designs, population of the study, sample and sampling procedures, sources of data, instrument design, instrument for data collection, data presentation and analysis

#### **Research Design**

The survey research design was adopted in the study. The descriptive survey research design enables the researcher to describe, explain and portray characteristics of an event or population as it exists. Several related studies found survey design to be the most applicable research design (Mungai, 2014; Abioro, 2013). Research design deals with planning the strategy or overall design of the study. This study used survey research design. Ogutu (2012) posits that a survey research method is probably the best method available to social scientists who are interested in collecting original data for purposes of describing a population which is too large to observe directly. In this survey, independent variables were selected rather than observations and analyses of relationships among the variables carried out in their natural settings.

The approach allowed ascertaining of widespread opinions under natural conditions (Auka, Bosire & Matern, 2013). The survey design allowed investigation of possible relationships between variables. In this way the survey design was more appropriate for the study because it enabled data collection from broader category as well as comparisons between variables.

The dependent variable in this study was the corporate governance while the independent variable was legal framework, auditor's role.

Collis and Hussey (2009) state that when researchers start to think about their research methodology they need to think about the differences between qualitative and quantitative research. Neither qualitative nor quantitative research methodology is necessarily better than the other, for they each have their own strengths and weaknesses. When choosing a particular methodology, care should therefore be taken to identify what these strengths and weaknesses are (Delahaye, 2005; Sekaran & Bougie, 2010).

The study will use quantitative research. According to Horn (2009), Quantitative research collects predominately numerical data and often relies on deductive reasoning. Deductive reasoning forms a view about the likely nature of a thing, and then tests whether the view is correct. Quantitative research is known for its objectivity. Quantitative methods look at the respondents' opinions and attitudes and compare them; they do not try to influence responses and ensure the researcher is detached from the respondents. As the researcher wants valid answers, quantitative research is best suited as it minimises the risk of bias, something which can seriously threaten the validity of a study.

### **Area of the Study**

Ghana Water Company Limited (GWCL) is a utility company, which is fully owned by the government of Ghana. The company is responsible for the supply of drinkable water to all urban communities in Ghana. The history of Ghana Water supply system dates back before the World War I, when the first public water supply system was established in Accra. There were

however other systems that were built exclusively in urban towns of Cape Coast, Winneba and Kumasi in the 1920s. These facilities were managed by the Hydraulic Division of the Public Works Department.

In 1948, the Department of Rural Water Development was established to take charge of the development and management of rural water supply through the drilling of bore holes and construction of wells for rural communities (Ghana Water Company Limited, 2016). After independence, the Water Supply Division, under the Ministry of Works and Housing was set up with the responsibilities for both urban and rural water supplies. In 1965, the Ghana Water and Sewerage Corporation (GWSC), was established under an Act of Parliament (Act 310) as a legal public utility entity. The new GWSC was responsible for water supply and sanitation in rural as well as urban areas. The Ghana Water Company head office in Cape Coast was chosen for the study because information needed could only be provided by the head office in Cape Coast. Since the research study was to be completed within a specific timeframe, limiting the study to Cape Coast, Head office was appropriate hence the selected case study.

### **Target Population**

Kothari (2003) defines target population as the total enumeration of the subjects under investigation. The study population was seventy-two (72) consisting of the accountants, top management and staff of Ghana water company limited.

### **Sample Size and Sampling procedures**

A sample size is sub set of the population drawn to represent the entire population or any combination of sampling units that does not include the

entire set of sampling units that has been defined as the population (Garson, 2012). A stratified random sampling was used to obtain the sample size. The population was categorized into the management positions. Auka, Bosire and Matern (2013), posit that stratified random sampling ensures that ensures that all the groups (categories) are adequately sampled and this facilitates comparison among the groups. Purposive procedure is a method whereby sample elements judged to be typical representative are chosen from the population (Kothari, 2004). The sampling techniques chosen by the researcher was purposive sampling technique.

Purposive sampling is also known as judgement sampling and is used when the researcher uses their own judgement in choosing members of population to participate in the study (Saunders, Lewis & Thornhill, 2012). Purposive sampling concentrates on particular characteristics of a population that are of importance to the researcher. The chance that a particular case will be selected for the sample depends on the subjective judgment of the researcher. Purposive sampling was used to select the heads of sections, head of department, and Directors of the Ghana water company limited. The respondents were purposively chosen because they were considered to possess vital information useful for the study by virtue of their positions.

As a rule of thumb, for a population less than 1000, a sample of 30% is sufficient in representing the entire population (Blanche, Durrheim & Painter, 2008). Therefore, for this study a sample of 61 respondents was selected to represent the entire population of 72. The final sample size was determined using the formula by Kothari (2004) as given below

$$N = \frac{z^2 \cdot p \cdot q \cdot N}{e^2 \cdot (N-1) + z^2 \cdot p \cdot q}$$



Where,  $n$  = the desired sample size

$z$  = the value of the standard variation at a given confidence level (to be read from the table giving the areas under normal curve)

$p$  = the proportion of target population estimated (50%)

$q = 1-p$

$e$  = acceptable error (the precision)  $N$  = population size

Therefore, representative sample of population was determined at 95% degree of confidence.

Hence at 95% degree of confidence,

$Z=1.96$   $p=0.5$   $q=1-p$   $e=5\%$  (0.05); by substituting;

$$n = \frac{(1.96)^2 (0.5) (0.5) (72)}{(0.05)^2 (72-1) + (1.96)^2 (0.5) (0.5)} = 61.0169 \text{ which is approximately equal to } 61$$

Therefore a sample size of 61 was selected from a total population of 72 staff. The selection of the sample is sufficient and representative enough of the entire population. The sample size was sufficiently large enough to produce results among variables that are significantly different and it broadens the range of possible data and forms a better picture for analysis. According to table of sample size determination developed by Kerjcie and Morgan (1970), at 95 percent degree of confidence, the representative sample size for 500 populations is equal to 217. Amedahe (2002) suggested that a minimum of 10 percent can be used as the appropriate sample size for any given study with a large population. Any percentage which falls within 5% to 20% is suitable in order to make generalizations in quantitative studies.

### **Data Collection**

The study employed both primary and secondary sources of data. For the primary source, the researcher collected original data from the respondents from the field. For secondary source, articles and publications was used. Primary data are described as those items that are original to the problem under study (Cohen, 2000). Primary data were necessary in order to get relevant, original and reliable first hand information about the problem under study. Secondary Data: These are accounts offered by the second part, those who did not actually see the object or event but obtained information and provided descriptions of what they learned.

They are usually seen as text that is produced much later than the events being studied, offering an interpretation and conversion of the primary data into an account that may be consulted by others. The present study collected the secondary data through documentary search like office records, circulars, administrative files, reports and minutes of meetings related to the research problem. The secondary data were used to supplement primary data.

### **Data Collection Instrument**

The questionnaire was used as data collection instrument. The reason for this choice is because they are easy to administer, tabulate and analysed. The primary data was collected through the use of survey questionnaire by drop and pick strategy to ensure high response rate. The use of questionnaire was adopted because it ensured that data collection was standardized such that each respondent got the same question and in the same format. Questionnaires also enabled collection of original data from the sample of the population within a short time and at low cost for purposes of describing the entire

population (Ogutu, 2012). The questionnaire was structured according to the research questions. The questionnaire was in four parts. Part one explored the population demographics. Part two looked at corporate governance framework. Part three covered the relationship between employee the role of internal auditors and corporate governance. Lastly part looked at the relationship between internal auditors' role and corporate governance.

### **Reliability of the Instruments**

In order to ascertain the reliability of the questionnaires, the researcher conduct a pre-test study on the questionnaires. The questionnaire was pre-tested before the final distribution. Cooper and Schindler (2003) noted that this is usually done to detect any weaknesses in the instruments designed. The pre-testing was done with the aim of refining and fine tuning the questionnaire so as to ensure that it was reliable. The pre-test was done on five respondents from the study population who were then excluded from the final study to eliminate bias. The pre-test was done to check possible errors in the instrument.

**Table 1: Results of the Test of Reliability of the Variables Measures.**

Variable	Number of Items	Reliability Alpha
Internal auditors practices	6	0.864
Corporate Governance Framework	6	0.798
Enhance corporate governance through audit	6	0.876

Source: Field Survey, Coffie (2018)

Table 1 indicates that Cronbach's alpha coefficient ranged from 0.848 (Internal auditors practices) to 0.898 (Corporate Governance Framework) revealing a great level of reliability. This is because every reliability outcome surpassed the 0.8 lower level of satisfactoriness (George & Mallery, 2003), the internal consistency and reliability of the measures employed was considered to be sufficiently high and to have sufficiently measured the research variables.

### **Ethical Considerations**

Ethical conduct states that it is the responsibility of the researcher to assess carefully the possibility of harm to research participants, and to the extent that it is possible, the possibility of harm should be minimised (Bryman & Bell, 2007). When carrying out research it is important that participants are aware of why it is being carried out, and what will be done with the information they provide. If this is not made clear, the information given may not be entirely truthful or accurate. It is important to inform respondents that participants' identities will not be shared and that there is full confidentiality. It is also important that in quantitative research, investigators must be completely objective and try not to influence a study with their own values and perceptions (Burns, 1993). Permission letter was sent to the understudy institutions to allow the researcher to carry out the research. They allowed the researcher to distribute the questionnaire to the respondents in each health institution.

### **Data Analysis**

The study used both qualitative and quantitative analytical techniques for data analysis. The data was first edited, classified, and tabulated. According to Koul (1984), data processing is a systematic process of

organizing the mass of raw data in a manner that facilitate analysis. Editing checked the raw data for accuracy, usefulness and completeness. The tabulation of the data involved recording of data in quantifiable terms using descriptive statistics. The purpose of this is to enable the researcher to meaningfully describe a distribution of scores. Editing was done to ensure accuracy and uniformity, check inconsistencies, and blank missing responses that could be disregarded.

The study utilized Statistical Program for Social Sciences (SPSS) version (22) for data entry. This program was also convenient and user friendly. The background information was summarized and the responses interpreted through descriptive statistics by use of tables, and percentages. Inferential statistics such as Peason's product moment correlation and regression analysis were used to determine the relationship between the dependent and independent variables.

### **Chapter Summary**

This chapter covered the research design, the population and sampling design, data collection and research procedures and data analysis that were used in the research. The next chapter discussed research findings and results in relation to the research questions.

## CHAPTER FOUR

### RESULTS AND DISCUSSION

#### Introduction

This section focused on the analysis and presentation of the results obtained from the field. Frequencies, percentages, charts and regression analyses were used. The main objective of this study was to ascertain the practices of internal audit and corporate governance at Ghana Water Company Limited at the Central Region in the Cape Coast Metropolis. The socio-demographic characteristics analysed were sex, educational attainment, number of years at post. These characteristics were considered very important in the study because they have influence on internal audit and corporate governance practices at Ghana Water Company Limited in the Cape Coast Metropolis. The second section analysed the views of respondents in accordance with the objectives of the study. The specific objectives were: identify the Internal Audit practices in Ghana Water Company Limited in the Cape Coast, assess the corporate governance framework of Ghana Water Company Limited in Cape Coast, assess the role of internal audit practice on good corporate governance in Ghana Water Company limited and examine how Corporate Governance practices can be enhanced through audits in Ghana Water Company Limited in Central Region.

### **Background Information of the Respondents**

This section of the study tried to expose the background information of respondents. These include; Gender, and Age, and Positions as presented from Tables

#### ***Gender of the Respondents***

The study sought to find out the gender of the respondents with the presumption that variation in gender could influence opinions. The responses are presented in Table 1.

**Table 1: Gender Distribution of the Respondents**

Gender	Frequency	Percentage (%)
Male	36	59.0
Female	25	41.0
Total	61	100.0

Source: Field Survey, Cofie (2018)

From Table 1, there was evidence that the majority of respondents were males. That is 59.0% of the respondents were males whilst 41.0% were females. This shows the level of gender imbalance among the respondents. Again, it is very likely that, most of their policies and programs will be gender bias since are very few females to pioneer the agenda of females during formulation of such policies and programs.

### Respondents' Age

The respondents were asked to indicate their age and the results are shown in Table 2.

**Table 2: Age of the respondents**

Ages	Frequency	Percentage (%)
20-29 years	35	57.4
30-39 years	10	16.4
40-49 years	7	11.5
50-59 years	9	14.8
Total	61	100.0

Source: Field Survey, Cofie (2018)

From Table 2, there were 61 respondents. Out of these 61 respondents in the study, 35 of them were between the ages of 20-29 forming 57.4%. 10 them aged between 30-39 also forming 16.4% and 9(14.8%) were 50-59 years and above 7 respondents representing 11.5% were aged between 40-49 years. Based on this data, it can be concluded that majority of the respondents in this are in their youthful ages. This discovery has two implications: first, most of the workers or members who are in their youthful ages might lack the necessary experience to influence the policies and programs of the companies. Finally, since majority of them are in their youthful ages, there are very likely be very effective and efficient in work and will also want to explore more due to youthful exuberance. Considering the nature and work of Ghana Water Company Limited very old members might not be able to go to the field to do the field work of these institutions.



***Educational Background***

It was also necessary for the study to examine the education levels of the respondents as that could determine their knowledge level in internal audit and corporate governance. The results are presented in Table 3 below

**Table 3: Educational qualification of the respondents**

Qualification	Frequency	Percentage (%)
Diploma	17	27.9
First Degree	40	65.6
Master's Degree	4	6.6
Total	61	100.0

Source: Field Survey, Cofie (2018)

From Table 3, it can be observed that majority of the respondents 65.6% are First degree holders, 27.9% of the respondents are Diploma holders while 6.6% of the respondents have done their Master's degree. These results imply that majority of the staff are degree holders and have the rich experience in internal audit and corporate governance practices.

**Table 4: The of years respondents have worked**

Responses	Frequency	Percentage (%)
1-10	42	68.9
11-20	7	11.5
20 years and above	12	19.7
Total	61	100.0

Source: Field Survey, Cofie (2018)

The results in Table 4 show that 68.9% of respondents indicated that they have worked the company for 1 to 10 years. Interestingly, 19.7% of the respondents have worked for 20 years and above and 11.5% of the respondents have 11 to 20 years work experience. It can be observed that majority of the respondents have been employed for one to ten years in the service. This implies that majority of the respondents had served for a considerable period which indicates that most of the respondents had vast knowledge which could be relied upon by this study.

#### **Internal Audit and corporate governance in Ghana Water Company Limited in the Cape Coast.**

The first objective was to identify the internal audit practices in Ghana Water Company Limited in the Cape Coast, To answer this research objective, six close ended items were generated on a five likert scale for the respondents to indicate whether they ‘strongly agreed’, ‘agree’, ‘neutral’, disagree’ or strongly disagree. Their responses were analysed and presented in Table 5.

**Table 5: Review organisational goals, processes and operation and provide professional advice to the management**

Responses	Frequency	Percentages
Disagree	6	9.8
Neither	8	13.1
Agree	35	57.4
Strongly agree	12	19.7
Total	61	100.0

Source: Field Survey, Cofie, (2018)

The results in Table 8 shows that majority 57.4% of the respondents agreed that Internal auditor review organisational goals, processes and operations and provide professional advice to the management to enhance corporate governance 19.7% of the respondents strongly agreed, 13.1% of the respondents were neutral in their response and 9.8% disagreed that with the statement that Internal auditor review organisational goals, processes and operations and provide professional advice to the management. The results of the study imply that majority 57.4% of the respondents agreed that the role of auditors is to enhance corporate governance through review organisational goals, processes and operations and provide professional advice to the management. Auditors work closely with managers to review operations such as systems, processes and people and report finding. The internal auditor's role is monitoring the operation of the organisation and they are instrumental

in guiding and evaluating the efficiency and effectiveness of an organization's operations and systems, and will be accountable to a governing body.

The results of the study support Regoliosi and d'Eri (2012) in their study which examined the relationship between the various elements of corporate governance and the quality of internal audit departments. The results of their survey partly confirm the relationship between the two fields, because, corporate governance elements seem to be positively affect internal audit quality. However, the results contradict the study of Goodwin- Stewart and Kent (2006) who did not find a strong support for the relationship between internal audit and "good" corporate governance.

The results of the study further support Saud and Marchand (2012) who explained that Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes. Similarly, Institute of Internal Auditors (2000) found 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. Again, Institute of Internal Auditor Research Foundation (2008) observed that an internal auditor is a forward looking individual, who knows and understands business systems and ensures that management operate rightly and achieve firm goals. Internal auditors play key role in the world of business

and review organizational goals, processes and operations and provide professional advice to the management.

The study further sought to examine whether Internal Auditors evaluate and improve the effectiveness of risk management, control and governance processes. The results are presented in Table 6 below.

**Table 6: Internal Auditors evaluate and improve the effectiveness of risk management, control and governance processes to enhance corporate governance.**

Responses	Frequency	Percentage (%)
Disagree	5	8.2
Neither	8	13.1
Agree	34	55.7
Strongly agree	14	23.0
Total	61	100.0

Source: Field Survey, (2018)

The results in Table 6 shows that majority 34(55.7%) of the respondents agreed that Internal Auditors evaluate and improve the effectiveness of risk management, control and governance processes to enhances corporate governance, 23.0% strongly agreed, 13.1% of the respondents were neutral in their response. On the contrarily, 8.2% of the respondents disagreed with the statement that Internal Auditors evaluate and improve the effectiveness of risk management, control and governance processes to enhance corporate governance. The result of the study means that majority 34 (55.7%) of the respondents agreed that Internal Auditors evaluate

and improve the effectiveness of risk management, control and governance processes to enhances corporate governance. The results of the study agrees with the Institute of Internal Auditing (2009) who observed that internal auditors play a key role in risk management and providing consultants and assurance services to the executives. The Institute maintained that four basic roles for internal auditor to be accountable are coordinating Enterprise-Wide Risk Management activities, maintaining and developing the Enterprise-Wide Risk Management framework, facilitating the identification and evaluation of risks, and for the board support developing of risk management strategy.

The researcher sought to find out whether Internal Auditors assist management to achieve the corporate goals and control system to prevent risks. The findings are as shown in the Table 7 below:

**Table 7: Assist management to achieve the corporate goals and control system to prevent risks**

Responses	Frequency	Percentage (%)
Strongly disagree	2	3.3
Disagree	4	6.6
Neither	7	11.5
Agree	29	47.5
Strongly agree	19	31.1
Total	61	100.0

Source: Field Survey, Cofie, (2018)

The findings in Table 7 show that, majority 29(47.5%) of the respondents agreed that Internal Auditors assist management to achieve the corporate goals and control system to prevent risks. Additionally, 31.1% of the respondents strongly agreed. 11.5% of the respondents were neutral in their response while 6.6% disagreed and 3.3% strongly disagreed that Internal Auditors assist management to achieve the corporate goals and control system to prevent risks in Ghana Water Company. The results of the study imply that majority 29(47.5%) of the respondents agreed that Internal Auditors assist management to achieve the corporate goals and control system to prevent risks. Internal auditors provide internal consulting services to all levels of the organization in terms of training, advices, facilitation and counsels. The findings are in agreement Karagiorgos et al. (2010) found that the most important elements of corporate governance were the board of directors, the top management, the audit committee and external audit. Tfindings of the study further confirmed the work of Institute of Internal Auditors (2011), who asserts that the primary aim of internal auditing is to assist management of firms to achieve the corporate goals, providing the assurance that management has implemented a satisfactory internal control system to prevent risks.

The Institute of Internal Auditors (2000), observed that the objective of internal auditing is to assist all members of management in the effective discharge of their responsibilities by furnishing them with the analyses, appraisals, recommendations and pertinent comments concerning the activities reviewed. In the study of Cohen et al. (2002), auditors were seen as a part of the internal control system of a company, are considered as important actors in the corporate governance field. In the same study, the association between the

audit process and the corporate governance is enhanced by the fact that weak corporate governance structures seems to cause a decrease in the quality of financial information reported and even to result in financial fraud.

The further sought to examine whether internal auditors in Ghana Water company advise managers on issues of financial reporting and accountability in the daily operation of a company and the responses are provided in Table 8

**Table 8: Advising managers on issues of financial reporting and accountability in the daily operation of a company**

Responses	Frequency	Percentage (%)
Strongly disagree	1	1.6
Disagree	9	14.8
Neither	14	23.0
Agree	27	44.3
Strongly agree	10	16.4
Total	61	100.0

Source: Field Survey, Cofie, (2018)

From Table 8, the study findings indicate that 27 respondents representing 44.3% of the respondents agreed that as the practice internal auditors advise managers on issues of financial reporting and accountability in the daily operation of a company, 16.4% strongly agreed with the statement and 23.0% of the respondents were neither agreed or disagreed on the this matter. However, 14.8% agreed with the statement that internal auditors



advise managers on issues of financial reporting and accountability in the daily operation of a company, 1.6% strongly disagreed with the statement. It could be deduced from the findings that that majority of the respondents agreed with the statement that internal auditors advise managers on issues of financial reporting and accountability in the daily operation of the Ghana Water company.

The results of the study support Ahmad and Taylor (2009) that auditors are tasked with the responsibility of advising managers on issues of financial reporting and accountability in the daily operation of a company. The results of the study also support Burnaby, Abdolmohammadi, Hass, Sarens and Allegrini (2009) who observed that there is need for auditors to advise managers on various aspect of financial reporting which helps in ensuring best practices and the interpretation of this regulation. A study by Wicaksono (2009) found that auditors are important in advising the managers on various matters which concern financial reporting. This helps in coping with a range of new standards and regulatory requirements which may be misunderstood without the input of auditors. The auditors also help in the creating of good financial records that can be used by managers to understand the status of the company.

The further sought to examine whether internal auditors in Ghana Water Company provide education and guidance, monitoring, auditing, and assessing compliance with policies and procedures. The responses are provided in Table 9

**Table 9: Internal Auditors provide education and guidance, monitoring, auditing, and assessing compliance with policies and procedures.**

Responses	Frequency	Percentage (%)
Strongly disagree	3	4.9
Disagree	6	9.8
Neither	3	4.9
Agree	34	55.7
Strongly agree	15	24.6
Total	61	100.0

Source: Field Survey, Cofie, (2018)

The results in Table 9, indicate that majority 34 respondents representing 55.7% of the respondents agreed that Internal auditors provide education and guidance, monitoring, auditing, and assessing compliance with policies and procedures, 24.6% strongly agreed with the statement and 4.9% of the respondents were neither agreed or disagreed on this matter. However, 9.8% agreed with the statement that internal auditors provide education and guidance, monitoring, auditing, and assessing compliance with policies and procedures. 4.9% strongly disagreed with the statement. The findings mean that majority 55.7% of the respondents agreed with the statement that internal auditors Ghana Water Company provide education and guidance, monitoring, auditing, and assessing compliance with policies and procedures. For effective corporate governance, there is need for members to comply with policies and procedures that govern it. The findings of the study is in agreement with Thomson Reuters (2015) who found that internal auditors help in tracking and

assessing regulations; developing and implementing policies; providing education and guidance, and monitoring auditing, and documenting.

Reuters (2015) observed that both internal and external audit help in the compliance function in the organization and plays a very important role in the providing information to the various stakeholders about the company's financial performance. Mitton (2002) found that the regulatory bodies strongly insist on an existence of a compliance function within the organization this helps in the enforcement of the corporate governance. Rabelo and Vasconcelos (2002) observed that the role of compliance is helps the management to be able to mitigate the various risk of legal or regulatory sanctions, loss to reputation financial loss.

#### **Assessing the corporate governance framework of Ghana Water Company in Cape Coast metropolis.**

The second research objective is to assess the corporate governance framework. To answer this research objective, five close-ended items were generated on a five likert scale for the respondents to indicate whether they 'strongly agreed', 'agree', 'neutral', disagree' or strongly disagree. Their responses were analysed and presented in Table 10

**Table 10: Assess the Corporate Governance Framework**

<b>Corporate Governance Framework</b>	<b>SA=5</b>	<b>A =4</b>	<b>N=3</b>	<b>D =2</b>	<b>SD =1</b>
Audit rules followed and observed in reporting	7(11.5%)	19(31.1%)	11(18.0%)	17(27.9%)	7(11.5%)
BOD provides all staff with code of ethics	5(8.2%)	31(50.8%)	14(23.0%)	8(13.1%)	3(4.9%)
The company has effective legal framework	32(52.5%)	17(27.9%)	2(3.3%)	5(8.2%)	5(8.2%)

Source: Field Survey, Cofie, (2018)

The study sought to determine whether the corporate governance ensures that audit rules are followed and the best practice is observed in reporting as illustrated in Table 10, the results show that 31.1%% of the respondents agreed that corporate governance ensures that audit rules are followed and the best practice is observed in reporting, 18.0% of the respondents were neutral in their responses but a few 17(27.9%) of them disagreed with the same statement. By implication, majority of the respondents agreed that corporate governance ensures that audit rules are followed and the best practice is observed in reporting. The findings of the

study support a study by Spiller (2002) who found that corporate governance ensures that audit rules are followed and the best practice is observed in reporting. The author argues that Businesses that have good reporting are able to attract investors easily making it easy to gain funding. Harman (2005) noted that corporate governance has also a well proven track record of ensuring changing behaviour because it demands certain ways of going about operations within the company.

In addition, respondents were asked to state whether the 'board of directors provides all staff with code of ethics. The results show that about 31(50.8%) of the respondents agreed that the 31(50.8%) of the respondents agreed Board of directors provide all staff with code of ethics, 14(23.0%) of the respondents were neutral in their response. However, 8(13.1%) of the respondents disagreed. The findings mean that the board of directors provides all staff with code of ethics. The finding of the study is agreement of Trevino et al. (1999), showed having specific characteristic of ethics in auditing had an impact on the corporate governance of companies. Collins (2001), found that leaders are responsible for promoting a culture of ethics and values in the organization that are instrumental in ensuring information produced by the organization is truthful.

The study sought to establish whether the company has effective corporate governance established through a well developed legal framework. The findings show that 52.5% of the respondents agreed that the company has effective corporate governance established through a well developed legal framework. 2(3.3%) of the respondents were neutral in their respondents. However, 5(8.2%) of the remaining also forming the minority disagreed with

that. The findings mean that the company has effective corporate governance established through a well developed legal framework. The findings of the study agreed with Shleifer and Vishny (1997), that effective corporate governance is established either through a well developed legal framework and an active capital market, or through concentrated ownership. In an extension of this argument, La Porta (1998), argued that countries with better legal protection of shareholders, financial markets are more developed and firms have greater access to external finance and better opportunities for growth. Goergen, (2012), was of the view that corporate governance provides ways of mitigating or preventing conflicts of interests which include the processes, customs, policies, laws, and institutions which have an impact on the way a company is controlled.

Jia (2004) observed that good corporate governance assists in aligning the actions of board of directors and management with the various interests of shareholders. This helps the business be able to meet its objectives of getting returns for business owners. Proper reporting promotes corporate governance which is intertwined with the various decision made by management's formulated strategy and implemented tactics serve the best interests of the equity shareholders.

### **Enhancing Corporate Governance through Audit in Ghana Water Company**

The third research objective is to examine how Corporate Governance practices can be enhanced through audits in Ghana Water Company Limited in Central Region. To answer this research objective, five close-ended items were generated on a five likert scale for the respondents to indicate whether

they ‘strongly agreed’, ‘agree’, ‘neutral’, disagree’ or strongly disagree. Their responses were analysed and presented in Table 11

The respondents were requested to indicate the extent to which clarifying Board’s role and strategies to ensure good governance. The findings are as presented in Table 11

**Table 11: Clarifying Board’s role and strategies to ensure good governance**

Responses	Frequency	Percentage (%)
Strongly disagree	2	3.3
Disagree	3	4.9
Neither	11	18.0
Agree	37	60.7
Strongly agree	8	13.1
Total	61	100.0

Source: Field Survey, Cofie (2018)

The findings in Table 11 shows that, majority (60.7%) of the respondents agreed that clarifying Board’s role and strategies to ensure good governance, 13.1% strongly agreed, 18.0% of the respondents were neutral in their response. 3.3% of the respondents were neutral in their response. However, 4.9% of the respondents disagreed with the statement that clarifying Board’s role and strategies to ensure good governance. The results of the study imply that majority (60.7%) of the respondents agreed that clarifying Board’s role and strategies to ensure good governance.

The findings of the study support the study by Beasley, Chen, Nunez and Wright (2006) who found that effective execution of policy and strategy in an organization is necessary to fulfil the other roles necessary for achieving the organizational goals. Chepkorir (2010) established that internal audit 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 activity evaluates risk exposures relating to the organization's governance, operations and information systems. The internal auditors are expected to provide recommendations for improvement in those areas where opportunities or deficiencies are identified.

Beasley and Frigo (2010) noted that policies and strategy act as guides and help define the focus in which direction the organization is heading and differentiating the responsibilities between the board, the management, and the employees. Well written policies lead to a more efficient board functioning and clear purpose. Belobaba (2009) noted one of the roles of a board of directors is to create strategies for the organization. Boards are tasked with various decisions making which revolve around the organization's mission, vision, and strategies. Boards make decisions about issues affecting the organization significant matters like how to ensure that financial reporting is done properly.



**Table 12: Appropriate ethics and values promote corporate governance**

Responses	Frequency	Percentage (%)
Strongly Disagree	5	8.2
Disagree	8	13.1
Agree	40	65.6
Strongly Agree	8	13.1
Total	61	100.0

Source: Field Survey, Cofie, (2018)

The results in Table 12 revealed that 65.6% of the respondents agreed that appropriate ethics and values promote corporate governance, 13.1% of the respondents strongly agreed with statements, while 13.3% were neutral in their response, However, 8.2% of the respondents disagreed that Appropriate ethics and values promote corporate governance. The results of the study imply that appropriate ethics and values promote corporate governance. The study supports. A study by Treviño, Weaver, Gibson and Toffler (1999), showed having specific characteristic of ethics in auditing had an impact on the corporate governance of companies. This study found that consistency in company's action towards policy that led to action of ethics ensured that there was creation of financial statements that were truthful. Collins (2001), asserted that leaders are responsible for promoting a culture of ethics and values in the organization that are instrumental in ensuring information produced by the organization is truthful.

**Table 13: Setting and enforcing clear lines of responsibility ensure good governance**

Responses	Frequency	Percentage (%)
Strongly disagree	2	3.3
Disagree	5	8.2
Neither	10	16.4
Agree	29	47.5
Strongly agree	15	24.6
Total	61	100.0

Source: Field Survey, Cofie (2018)

The results in Table 13 found that 47.5% of the respondents agreed that setting and enforcing clear lines of responsibility ensure good governance and 24.6% of the respondents strongly agreed with statements, while 16.4% were neutral in their response. However, 8.2% and 3.3 % disagreed and strongly disagreed that setting and enforcing clear lines of responsibility ensure good governance. The results of the study imply that setting and enforcing clear lines of responsibility ensure good governance. The study supports

**Table 14: Engaging stakeholders and making accountability real**

Responses	Frequency	Percentage (%)
Strongly Disagree	11	18.0
Disagree	13	21.3
Agree	27	44.3
Strongly Agree	10	16.4
Total	61	100.0

Source: Field Survey, Cofie, (2018)

The results in Table 14 found that 44.3% of the respondents agreed that engaging stakeholders and making accountability real ensure good governance and 16.4% of the respondents strongly agreed with statements, while 21.3% were neutral in their response. However, 18.0% strongly disagreed that engaging stakeholders and making accountability real ensure good governance. The results of the study imply that engaging stakeholders and making accountability real ensure good governance. The study supports

**Table 15: Enhance information transparency ensure good governance**

Responses	Frequency	Percentage (%)
Strongly disagree	1	1.6
Disagree	12	19.7
Neither	11	18.0
Agree	28	45.9
Strongly agree	9	14.8
Total	61	100.0

Source: Field Survey, Cofie, (2018)

The results in Table 15 revealed that 45.9% of the respondents agreed that enhance information transparency promote corporate governance, 14.8% of the respondents strongly agreed with statements, while 18.0% were neutral in their response, However, 19.7% of the respondents disagreed and 1.6% strongly disagreed that enhance information transparency promote corporate governance. The results of the study imply that enhance information transparency promote corporate governance. The study supports Sarens and De Beelde (2006), found that effective and efficient internal control system enables organisations to respond accordingly to significant business, operational, financial, compliance and other risks. Verschoor (2006) maintains that a crucial part of the internal auditor's work includes clarifying their roles in assurance and consulting as well as ensuring risk and add value. Suyono and Hariyando (2012) showed that internal control and internal audit have a positive significant relationship with good corporate governance.

### **Effects of Internal Auditors of Role on Good Corporate Governance in Ghana Water Company limited in Cape Coast**

#### **Pearson's Coefficient of Correlation**

To examine the strength of the relationship between the variables, the researcher used Karl Pearson's coefficient of correlation. The researcher used the Karl Pearson's coefficient of correlation ( $r$ ) to study the correlation between the study variables and the findings were shown as in Table 16.

**Table 16: Coefficient of Correlations**

		Internal Auditors control	Independ ency of internal audit function	Good of ethical behaviour r of auditors	Corporate of governan ce
Internal Auditors control	Pearson	1	.149	.724**	.642**
	Correlation				
	Sig. (2-tailed)		.253	.000	.000
	N	61	61	61	61
Independency of internal audit function	Pearson	.149	1	.090	.285*
	Correlation				
	Sig. (2-tailed)	.253		.492	.026
	N	61	61	61	61
Good ethical behaviour of auditors	Pearson	.724**	.090	1	.676**
	Correlation				
	Sig. (2-tailed)	.000	.492		.000
	N	61	61	61	61
Corporate governance	Pearson	.642**	.285*	.676**	1
	Correlation				
	Sig. (2-tailed)	.000	.026	.000	
	N	61	61	61	61

\*\* . Correlation is significant at the 0.01 level (2-tailed).

\*Correlation is significant at 0.05

Source: Field Survey, Cofie, (2018)

From the findings, there was a positive correlation between corporate governance practices and internal auditors control with a correlation figure of .642, it was clear that there was a positive correlation between the corporate governance practices and Independency of internal audit function as shown by a correlation figure of 0.285. The study further shows that there is positive relationship between corporate governance and good ethical behaviour of auditors. The findings agrees with Ahmad and Taylor (2009) who opined that that there was positive correlation between corporate governance and good ethical behavior of auditors, independency of internal audit function and

internal auditors’ control. The auditors are tasked with the responsibility of advising managers on issues of financial reporting and accountability in the daily operation of a company. The corporate board of directors and top managers are faced with an evolving landscape of corporate governance regulations and requirements (Burnaby, Abdolmohammadi, Hass, Sarens & Allegrini, 2009) which has had an implication on the day to day operation. Therefore, there is need for auditors to advise managers on various aspect of financial reporting which helps in ensuring best practices and the interpretation of this regulation.

Multiple regression analysis was further done to examine the effects of internal auditors of role on good corporate governance practices in Ghana Water Company limited in Cape Coast. The independent variables in this study included were good ethical behaviour of auditors, independency of internal audit function, internal auditors control while the dependent variable was corporate governance. The results are shown in Table 17

**Table 17 Table 17: Model Summary<sup>b</sup>**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. Change
1	.739 <sup>a</sup>	.547	.523	.773	.547	22.898	3	57	.000

a. Predictors: (Constant), Good ethical behaviour of auditors, Independency of internal audit function, Internal Auditors control

Source: Field Survey, Cofie, (2018)

As illustrated in Table 17, good ethical behaviour of auditors, independency of internal audit function, Internal Auditors control collectively explained 54.7% (adjusted R squared=.523) of the variance in corporate

governance. This would suggest that the present regression model is a good predictor of corporate governance. The three independent variables studied, explain only 54.7% of the corporate governance as represented by the  $R^2$ . This therefore means that the three independent variables (good ethical behaviour of auditors, independency of internal audit function, internal auditors control) only contribute about 54.7% to the corporate governance while other factors not studied in this research contribute 45.3% of the corporate governance. The results showed that the relationship between all the independent variables pooled together and the dependent variable is positively significant with the value of R correlation coefficient= 0.739

**Table 18: ANOVA<sup>a</sup>**

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	41.016	3	13.672	22.898	.000 <sup>b</sup>
	Residual	34.034	57	.597		
	Total	75.049	60			

a. Dependent Variable: Corporate governance

b. Predictors: (Constant), Good ethical behaviour of auditors, Independency of internal audit function, Internal Auditors control

Source: Field Survey, Cofie, (2018)

The ANOVA results show that P (0.000) is less than alpha (0.05). Thus the three variables play a significant role in explaining the effects of internal audit role on corporate governance in Ghana Water Company with (F=22.898), df=3, and P<0.05), thus, the fitness for the model is confirmed. The overall regression model with three predictors of the effects of internal

audit role on corporate governance has worked well in explaining the variation in corporate governance

**Table 19: Regression Model Coefficients<sup>a</sup>**

Model	Unstandardized Coefficients	Std. Error	Standardized Coefficients	t	Sig.	95.0% Confidence Interval for B	
						B	Lower Bound
1 (Constant)	1.127	.354		3.182	.002	.418	1.837
Internal Auditors control	.221	.101	.285	2.192	.032	.019	.423
Independency of internal audit function	.174	.078	.202	2.239	.029	.018	.330
Good ethical behaviour of auditors	.325	.093	.452	3.495	.001	.139	.511

a. Dependent Variable: Corporate governance

Source: Field Survey, Cofie, (2018)

The established regression equation was

$$Y = 1.127 + 0.221 \text{ IAC} + 0.011 \text{ IAF} + 0.091 \text{ GEB}$$

Whereby Y = Corporate governance

X1 = Internal auditors control

X2 = Independency of internal audit function,

X3 = Good ethical behaviour of auditors

From the regression equation, the study revealed that holding internal audit Control, independence of internal audit function and Good ethical behaviour of auditors to a constant zero corporate governance would stand at 1.127, a unit increase in internal audit control would lead to increase in corporate governance Ghana Water Company by a factor of 0.221, a unit increase in independence of internal audit



function would lead to increase in corporate governance Ghana Water Company by a factor 0.174, a unit increase in Good ethical behaviour of auditors would lead to increase in corporate governance Ghana Water Company by a factors of 0.325. Allott (1996) found that internal auditors can assist businesses in managing their risks more effectively by identifying problems and suggesting value adding improvements to the organizations.

From the findings the study revealed that there was greater variation in corporate governance Ghana Water Company due to changes in internal audit control, independence of internal audit function and Good ethical behaviour of auditors, this clearly shows that changes in corporate governance Ghana Water Company could be accounted for by changes in internal audit controls, independence of internal audit function and Good ethical behaviour of auditors. The study also established that there was a strong positive relationship between corporate governance Ghana Water Company and internal audit controls, independence of internal audit function, professional and good ethical behaviour of auditors.

Evaluating controls and operations is an internal audit activity which entails evaluating the adequacy and effectiveness of controls in responding to risk within the company's controls (IIA, 2011). Further, Ramos (2004) asserts that internal controls is a key element of controls that sets the attitude for an institution and influences the control awareness of people. Auditors assess the quality of risk management controls and evaluate and report the on the effectiveness and execution of this controls by management (IIA, 2015). Majority of the respondents agreed with the fact corporate governance can be enhanced by auditors through evaluation of controls and operations. The study

found that a unit increase in internal controls would lead to increase in corporate governance Ghana Water Company, a unit increase in independence of internal audit function would lead to increase in corporate governance Ghana Water Company, a unit increase in Good ethical behaviour of auditors would lead to increase in corporate governance Ghana Water Company.

## CHAPTER FIVE

### SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

#### **Introduction**

This chapter deals with discussion, summary of the findings, conclusions, and recommendations. This study sought to investigate internal audit and corporate governance at Ghana Water Company Limited: the case of Cape Coast metropolis, central region of Ghana. Specifically, the study sought to identify the Internal Audit practices in Ghana Water Company Limited in the Cape Coast, assess the corporate governance framework, assess the role of internal audit practice on good corporate governance and examine how Corporate Governance practices can be enhanced through audits in Ghana Water Company Limited in Central Region. The population for the study was 72. The study employed descriptive survey design and the main instrument used for the study was a questionnaire. The simple random sampling was employed to select a sample size of 61.

#### **Summary of Key Findings**

The study found that majority 57.4% of the respondents agreed that the role of auditors is to enhance corporate governance through review organisational goals, processes and operations and provide professional advice to the management. Auditors work closely with managers to review operations such as systems, processes and people and report finding. The internal auditor's role is monitoring the operation of the organisation and they are instrumental in guiding and evaluating the efficiency and effectiveness of an organization's operations and systems, and will be accountable to a governing body.

The study also found that majority 55.7% of the respondents agreed with the statement that internal auditors Ghana Water Company provide education and guidance, monitoring, auditing, and assessing compliance with policies and procedures. The study also found that majority of the respondents agreed with the statement that internal auditors advise managers on issues of financial reporting and accountability in the daily operation of the Ghana Water company Limited.

The results of the study found that auditors are tasked with the responsibility of advising managers on issues of financial reporting and accountability in the daily operation of Ghana Water Company Limited. Effective corporate governance is significant for Ghana Water Company Limited because it can lead to managerial excellence and help Ghana Water Company Limited with a weak corporate governance structure to raise capital and attract foreign investors. Internal audit plays a critical role in corporate governance by providing a wide spectrum of assurance and consulting services

### **Enhancing Corporate Governance through Audit**

The study found that Ghana Water Company use audit to enhance corporate governance by prioritizing risk management, setting and enforcing clear lines of responsibility, ensuring timely and effective information policy, promoting appropriate ethics and values, clarifying board's role in strategy, enhance information transparency, engaging stakeholders and making accountability real and promoting good values for the whole organization and demonstrating this values. Sound corporate governance plays a key role in enhancing integrity and efficiency in Ghana Water Company Limited.

## **Effects of internal auditors of role on good corporate governance practices in Ghana Water Company limited in Cape Coast metropolis**

From the findings the study revealed that there was greater variation in corporate governance Ghana Water Company due to changes in internal audit control, independence of internal audit function and Good ethical behaviour of auditors, this clearly shows that changes in corporate governance in Ghana Water Company could be accounted for by changes in internal audit controls, independence of internal audit function and Good ethical behaviour of auditors. The study also established that there was a strong positive relationship between corporate governance Ghana Water Company and internal audit controls, independence of internal audit function, professional and good ethical behaviour of auditors. The internal auditing function is a risk management tool, is a key ingredient in corporate governance regulations. It is the direct responsibility of management and audit committee to set up and monitors the internal control framework of a Ghana water Company Limited. This governance responsibility is carried through the instrumentality of internal audit function.

### **Conclusion**

The relevance of corporate governance cannot be over-emphasized since it constitutes the organizational climate for the internal activities of a company. Corporate governance brings new outlook and enhances a company's corporate competitiveness. The study was able to conclude that Internal auditors played significant role by ensuring that , transparent and reliable, monitor choice of accounting principles, ensuring risk management process is comprehensive and ongoing, establishing a direct reporting

relationship with the external auditors, overseeing financial reporting and disclosure and review internal audit plans, report and significant figures.

### **Recommendations**

The findings revealed that internal auditors have important role to ensure effective corporate governance practices implement good corporate governance. In order to control the managers to implement good corporate governance, they should establish certain control mechanisms.

1. Management should ensure good corporate governance practices in Ghana Water Company since they are unique from other sector.
2. The Management Ghana Water Company has to implement good corporate governance practices through enacting rules and regulations.
3. Corporate governance practices will ensure that Ghana Water Company maintains the level of risk they can handle and give customers good service.
4. The study also recommends that Management Ghana Water Company formally adopt and implement Principles of Corporate governance within their policies and procedures, and report on their compliance in their annual reports.
5. The Management Ghana Water Company should develop corporate governance policies for the appointment of independent board members, establish and maintain better relations with their stakeholders, and establish the unitary model of board system, in accordance with existing legal provisions.
6. The Management Ghana Water Company should develop training programmes for their managerial personnel, as well as for board

members, aiming at improving and advancing their corporate governance practices in the light of OECD principles.

7. Management Ghana Water Company should enhance their corporate governance by ensuring that Ghana Water Company discloses adequate and reliable information in their published semi-annual and annual financial statements.

### **Suggestions for Further Studies**

It is envisaged that the findings of this study will contribute to the existing body of knowledge and form basis for future research. However, the study did not look at corporate governance practices and auditor's performance there is need to carry out further research to establish corporate governance practices and auditor's performance. There is also need for further research to be conducted to look at factors affecting corporate governance practices and auditor's performance in other region instead of Cape Coast.

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APPENDIX A

UNIVERSITY OF CAPE COAST

SCHOOL OF BUSINESS

DEPARTMENT OF ACCOUNTING AND FINANCE

QUESTIONNAIRE FOR RESPONDENTS

Dear Respondent,

I am a final year MBA student (Accounting) conducting a survey as part of my research dissertation on the topic: “Internal audit and Corporate Governance in Cape Coast Municipality”. You are kindly requested to read through the items and respond to them as frankly and objectively as possible. Your responses will be treated confidentially and be used solely for academic purpose. Do not write your name on the questionnaire since this is not a test and you will not be identified with the results. Thank you for taking time to help with this research.

**Section A: General Characteristics of Respondents**

1. Gender:

Male [ ] Female [ ]

2. Age : 20-29 years [ ]

30-39 years [ ]

40-49 ears [ ]

50-59 years [ ]

3. Current position; Junior Staff [ ] Senior Staff [ ] Senior Member [ ]

4. Number of years of service 1-10 years [ ]

11-20 years [ ]

20 years and above [ ]

5. Educational qualification: Diploma [ ] 1<sup>st</sup>Degree [ ] Masters [ ]

PhD [ ]

### Section B: Internal Audit practices in Ghana Water Company Limited in the Cape Coast

The underlisted are some of the Internal Audit practices in Ghana Water Company Limited in the Cape Coast. Rank them using 1 to 5 scales, where 1= Strongly disagree, 2 =Disagree, 3=Neither, 4=Agree, 5=Strongly agree

S/No	Internal auditors practices	5	4	3	2	1
6	Review organisational goals, processes and operations and provide professional advice to the management.					
7	Evaluate and improve the effectiveness of risk management, control and governance processes.					
8	Assist management to achieve the corporate goals and control system to prevent risks.					
9	Evaluating controls and operations					
10	Advising managers.					
11	Assessing compliance with policies and procedures					

### Section C: Corporate Governance Framework of Ghana Water Company Limited

The underlisted are some of the Corporate Governance Framework of Ghana Water Company Limited. Rank them using 1 to 5 scales, where 1= strongly disagree, 2 =Disagree, 3=neither, 4=Agree, 5=Strongly agree

S/No	Corporate Governance Framework	5	4	3	2	1
12	The remuneration of BOD and/or Senior Management reviewed by shareholders annually					
13	BOD provides all staff with code of ethics					
14	Remuneration of directors disclosed to the members					
15	Upon appointing an external auditor its name and fees are disclosed					
16	Clarifying Board's role and strategies to ensure good governance					

**Section D: Enhancing Corporate Governance through Internal Audit**

The underlisted are some identified role of internal audit practice on good corporate governance. Rank them using 1 to 5 scales, where 1= Strongly disagree, 2 =Disagree, 3=Neither, 4=Agree, 5=Strongly agree

S/No	Enhance corporate governance through audit	5	4	3	2	1
17	development and maintenance of an adequate and effective audit system to protect assets loss					
18	Promoting appropriate ethics and values					
19	Ensuring timely and effective information policy					
20	Setting and enforcing clear lines of responsibility					
21	Enhance information transparency					
22	Engaging stakeholders and making accountability real					
23	Assist all members of management in the effective discharge of their responsibilities					
24	Responsible for financial operations and controls					
25	design checks to detect frauds and embezzlement					

26. At what extent has Internal Auditing impacted on good corporate governance?

Very effective [ ] Effective [ ] Neutral [ ] Less Effective [ ] Totally Ineffective [ ]

internal auditors are independent of management’s manipulation  
Yes [ ] No [ ]

**Section D: Challenges of internal audit and corporate governance practices**

27). Which of the following are the challenges that Ghana Water Company encounter in its quest to ensure good corporate governance through internal auditing.

- a). Lack of logistics [ ]
- b). Lack of training of audit personnel on current audit practices [ ]
- c). Non-compliance with laws, regulations and ethical standards [ ]
- d). Inability to establish a sound system of oversight and management [ ]
- e). Issues relating to governance and risk management are often inadequately addressed [ ]

**Thank You**