



An Evaluation of the Effectiveness of Internal Audit Control in Ensuring Public and Private Sector Integrity and Accountability (A Case of Ghana Agric. Development Bank and the Fan Milk Industry-Ghana)

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Abstract : *Fostering integrity and combating fraud and corruption in the public and private sector is a challenge for government and public administrations, particularly in times of economic crisis. To succeed, executives in public and private administration must be equipped with appropriate, effective and efficient instruments. How can internal control and internal audit contribute to safeguard integrity and prevent fraud and corruption?*

This research work is assessing the effectiveness of internal control in the public and private sector. Thus, the study was to underline the importance of a well-organized internal control systems for ensuring the safe and soundness of the banks activity and private enterprises and by the stability of the banking system, and the private enterprises as a whole for the purpose of paying responsible and reliable tax to the government.

The main objective of the research was to critically analyse the adequacy of internal control system of banking institutions and private enterprises

This study made use of both primary and secondary data. Information was gathered from interviews, questionnaires, publications, journals, magazines and electronic medium.

To facilitate interpretation of the information; frequency charts have been useful to present data.

The interviews and questioning focused on the following key issues:

- *Does the existing internal control framework provide internal audit with a sound basis upon which to fulfill its fraud and corruption responsibilities?*
- *Do the internal audit mandate and reporting lines enable it to fulfill its fraud and corruption responsibilities?*
- *What are the advantages and disadvantages of having a function separate from internal audit charged with prevention, detection and investigation of fraud and corruption?*
- *Where there is an entity separate from internal audit charged with prevention, detection and investigation of fraud and corruption, what factors are necessary such that both may fulfill their respective roles in mitigating risk of fraud and corruption?*
- *What other instruments are necessary for internal audit to be efficient in mitigating risk of fraud and corruption. E.g., in terms of independence, existence and composition of audit committee, system to ensure follow up to recommend solutions etc.*
- *Does the internal control system for accounting and financial reporting include specific procedures to reduce the risk of errors and fraud in your institution or organization?*
- *Do internal control activities for accounting and financial reporting include procedures to protect assets (risk of negligence, error, and internal or external fraud)?*
- *Suggestion to improve internal control systems in your bank or enterprise?*

Suggestion to improve auditing system in the private enterprise to foster tax payment?

This study also, evaluated the control environment and monitoring activities components of Internal Control Systems of Ghanaian Banks using COSO's principles and attributes of assessing the effectiveness of internal control systems. A five point Likert scale was used to measure respondent's knowledge and perception of internal controls and the bank's internal control system effectiveness. Responses ranged from strongly disagree to strongly agree, where 1 represented strongly disagree (SD) and 5 represented strongly agree (SA). Statistical Package for Social Sciences (SPSS) was used to analyse data and presented in the form of means and standard deviations for each question and each section of the questionnaire. The study found out that, strong controls exist in the control environment and monitoring activities components of the internal control systems of banks in Ghana. The two components were highly rated by respondents with average means of 4.72 and 4.66 respectively. The study recommended that boards of banks in Ghana should not be complacent about the findings but should work hard to ensure continuous ongoing and separate internal control monitoring to ascertain that controls really exist and are functioning properly.

Key words: Effectiveness, Audit, Control, Public, Private, Sector, Integrity, Accountability, Bank, industry, Enterprises



CHAPTER ONE

INTRODUCTION

Background of the study

The development of modern accountancy and the growth of the auditing profession in Ghana, and, indeed, in the world as a whole, must be seen in the context of the enormous expansion of industry and commerce, which has taken place since the Industrial Revolution. This Revolution was another landmark in the history of trade and commerce. With the rapid growth in the number of companies, profession accountants came in the picture.

In 1880, the then Queen of the United Kingdom, Queen Victoria granted a charter, which incorporated the various societies of accountants into a single body, The Institute of Chartered Accountants of England and Wales. By the early 1990's, the concept of audit had developed to a stage where professional accountants became prominent as auditors. "The origin of auditing goes back to times scarcely less remote than that of accounting. Whenever the advancement of civilization brought about the necessity of one man being intrusted to some extent with property of another, the advisability of some kind of check upon the formal would become apparent. Richard Browne, (1905). The objectives of audits were also changed during this time. Apart from detecting errors, the auditors also started verifying the accuracy (finding the true and fair view) of financial statements and reporting on the accuracy of the financial records and documents. The verification and attestation of financial statements became the primary objective of a company's audit.

The last decade of the 15th century witnessed a great impetus in trade and commerce, inspired by the Renaissance in Italy. This led to the evolution of a system of accounts capable of recording completely all kinds of business transactions. The principles of double entry system were published in 1494, in Venice by Luca Pacioli, although the system had already been in existence in the preceding century. The author of these principles also defined and described, for the first time, the duties and responsibilities of an auditor in detail. Since then, the duties and responsibilities of an auditor have increased enormously.

The word 'audit' is derived from the Latin word 'audire' which means 'to hear'. The free Merriam Webster dictionary defines an audit as "a formal and methodical

examination and review of an organization's financial situation or individual's accounts. An audit can also be defined as an independent examination of the evidence from which the financial statements of an enterprise are derived, in order to give the reader of the financial statements confidence as to the 'truth and fairness' of the state of affairs which they disclose. The Auditing Practices Board describes the objective of an audit as being able to enable auditors to express an opinion whether the financial statements give a true and fair view of the company and have been properly prepared in accordance with applicable reporting framework" (ACCA Study Manual – Audit and Internal Review, 2005, p.1). Reference is often made to external auditing when the word "audit" is mentioned. This requires the examination of the financial statements by a member of the Institute of Chartered Accountants or a practicing accountant. The publication of the annual audit report by companies is a statutory obligation. The Companies Code, 1963 (Act 179) requires all companies, both public and private, to appoint auditors who are to issue annual audit reports on the financial statements to every member or debenture holder of the company.

A rapidly growing concept in auditing is Internal Auditing. The Institute of Internal Auditors (IIA) defines Internal Auditing as an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization to accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes. Internal auditors are employees of the organization and work exclusively for the organization. They assist the staff of an organization in performing their responsibilities by furnishing them with analyses, appraisals, recommendations, and counsel. By performing those functions, internal auditors can be thought of as a part of an organization's internal control.

Nearly every large corporation maintains an internal auditing staff whose principal goal is to investigate and appraise the effectiveness with which the various organizational units of the company are carrying out their assigned responsibilities and report their findings and recommendations to the top management. Much attention is given by internal auditors to the study and appraisal of internal control. As representatives of top management, the internal auditors are interested in determining whether each branch or department has a clear understanding of its assignment; is adequately staffed; maintains good records;



properly safeguards its inventories and other assets; and cooperates harmoniously with other departments (Whittington et al, 2004). Many internal audit departments perform internal consulting activities in their organizations.

Corporate governance concerns the way that a company is operated and directed, and in particular encompasses the operations of the board and audit committee, as well as the overall control and risk management framework (ACCA Study Manual – Audit and Internal Review, 2005). Good governance in an organization is a tool to achieve organizational strategy. Over the past years, there has been a loud call for good corporate governance in organizations. The four related characteristics of good governance are transparency, public accountability, effectiveness/efficiency and trusteeship. As a result, the Internal Audit Function has always been viewed as an integral part of corporate financial management and as an instrument for improving the performance of the corporate world. By providing unbiased, objective assessments of whether corporate resources responsibly and effectively manage to achieve intended results, auditors help promote accountability and integrity, improve operations, and instill confidence among stakeholders.

The banking industry worldwide has experienced significant bank failures and crises over the years. Bank failures are of great concerns to Central banks and governments because of its systematic nature and often exacerbate recessions and act as catalyst for financial crises (Basel, 2004). Internal control problems are a common place in the banking industry, and that allowed rogue traders to cause huge financial losses to these banks. In 2012 HSBC the largest financial institution in Europe, admitted having poor money laundering controls and was consequently fined \$ 1.9b after U.S senate investigations (BBC, 2012). The Ghanaian banking industry is not without its share of bank failures. In early 2000's two banks, Ghana Co-operative Bank and Bank for Housing and Construction failed, which costs the government of Ghana about Ghc1.25 billion in liquidation (Addo, 2000). An effective internal control system is the nerve centre of every organization, the breakdown of which leads to the failure of organizations. Internal control is a crucial aspect of an organization's governance system and ability to manage risk. It ensures the achievement of an organization's objectives and creating, enhancing, and protecting stakeholder value (IFAC, 2012). Precipitating the current global financial crises is the high profile corporate failures such as Enron and WorldCom in the USA, Parmalat in Europe, and similar cases of corporate collapse around the

world (Amudo & Inanga, 2009). Failure of internal control systems and the eventual circumvention of internal controls by company executives accounted for these corporate scandals. Organisations must ensure that their internal control systems remain relevant in today's business model. Business models have changed dramatically, including increased use of shared services, outsourced service providers, regulations have also intensified on companies, over reliance on technology, increased stakeholder expectation etc have increased business risks significantly (McNally, 2013), which necessitated COSO's revision of its 1992 framework in 2013. This study evaluated the control environment and monitoring activities components of Internal Control Systems of Ghanaian Banks using COSO's principles and attributes of assessing the effectiveness of internal control systems. Given the barrage of criticisms labeled against the banking industry world wide for internal control problems, we sought to assess the effectiveness of internal control systems of Ghanaian banks by concentrating on the control environment and monitoring activities components of banks in Ghana.

THE BANKING INDUSTRY IN GHANA

In February 2003, BoG introduced the Universal Banking Business Licence (UBBL), which is expected to bring more competition within the industry. Banks in Ghana are categorised under this licensed system: Class I Banking licence-Universal banking; Class II Banking licence-Universal and off-shore banking, General Banking - Universal and Universal and off-shore banking and ARB APEX Bank (Bank of Ghana, 2007). There are 28 major banks licensed for Universal banking business and 137 rural and community banks under the ARB Apex banking system. The NBFIs are composed of Finance Companies, Discount Houses, Mortgage Finance Companies, Leasing Companies, and Savings and Loans Companies. All of these are regulated and supervised by the Bank of Ghana (BOG) under the Banking Act 2004 (Act 673) which strengthened the regulatory and supervisory functions of BoG (PricewaterhouseCoopers, 2012). The new universal banking classifications replaced the activity-based classification of Merchant, Commercial and Development banking that was in operation in the country and was in response to the financial reform initiative which introduced "universal banking". Dr. Acquah (Governor of the Bank of Ghana) in a keynote address to the Fifth Banking Award Ceremony mentioned among others that universal banking was to foster the entry of new banks, liberalise the choice



of banking services, increase branch network and competition for deposit at the retail level (Acquah, 2009).

The Fan Milk Industry differs fundamentally from other industries in the country. An apparent area of variation is in the products and services provided. Fan milk Ghana mainly deal in the most liquid and largely risky assets of business such as fandango and fandango equivalents.

Fan milk industry has been springing up in all corners of the country. The past few years of Ghana's economic history have seen different forms of Fan milk Ghana being introduced into the country. These take the form of commercial, investment, development and rural Fan Milk Industry. Most of these Fan milk Ghana are subsidiaries of the international Fan milk company limited with their parent company domiciled abroad.

Accra, the capital town of Ghana, and the economic hub of the entire Ghana, has been growing economically in the past decade. The steady economic growth of Accra has brought about a yawning gap in industrial intermediation. To bridge this gap, Fan Milk Company limited has established most of its branches in Accra. Notable among them is Fan milk Ghana limited, industrial area branch that has been established in Accra.

Statement of the Problem

There are a lot of companies, many of which operate without realizing the relevance of an internal audit and how it affects the company's financial performance. It has been an issue of great concern to stakeholders to improve upon the financial performance of most manufacturing companies.

Hence, the researcher of this study therefore aimed at ensuring an effective internal control system and establishing continuous internal audit is practiced in the organization which will go a long way to improve the financial performance of the company.

However, the methods adopted in conducting the internal audit activities, checking and verifying, are diverse, sometimes perverse and burdensome, and always costly. These variations in the internal audit functions stem from the differences in the risk exposure in different industries.

Even though accounting in general is built into the very structure of human interaction and accountability is fundamental to everyday structures of human interdependence, actual practices of checking or auditing can vary considerably. Much depends on what the

community or society demands and this in turn is a function of what is prepared to trust and types of risk to which it feels vulnerable.

A well performing internal audit function is one of the strongest means to promote a good governance system in an organization. As a result, in many countries it has received increasing attention as an important component of financial management and as a tool for improving the performance of both the private and public sectors.

In connection with this, this survey is being conducted in Fan milk Ghana, Accra to assess and determine what the current and desired practices of the role of Internal Audit functions are and to identify the gaps related to monitoring and promoting good governance in the corporate sector.

Objectives of the Study

The primary aim of the study is to evaluate the extent to which the current and planned internal audit function is positioned to contribute towards one of the major objectives of achieving good corporate governance in the Fan milk industry for accountability and service improvement.

To assess this basic objective, the specific objectives of the study will be to:

- To find out the extent to which internal auditors are involved in the effective running of Fan milk industry;
- To determine the factors that impede the internal audit function from performing its role in enhancing good corporate governance in the Fan Milk Industry;

Research Questions

The questions the research sought to answer are as follows:

- Are internal auditors significantly involved in the effective running of Fan milk industry?
- Are the rules of professional conduct on internal auditing being adhered to in Fan milk Ghana?
- To what extent are internal auditors independent in the conduct of their activities?

Significance of the Study

The results from the study will help in assessing the extent to which the laws, policies and procedures promulgated on internal audit functions in the Fan milk Ghana are implemented.



The results from the study will enlighten people on the proper functions of the internal audit unit in an organization.

The study will bring to light the current developments in the internal audit profession. It will also be a useful document to internal auditors in Fan Milk Industry and non-Fan milk industry in the country. It will also expose the researcher to the practical exposure of what they are taught in school as well as enables her to obtain her degree in accounting.

Delimitations of the Study

There are a lot of limitations to this study hence the scope of the topic of study, the population involved and the geographical location were narrowed (limited). Therefore, the study of the impacts of internal audit practices was performed on Fan Milk Ghana Limited with only twenty one participants.

Limitations of the Study

This research work was faced with the following limitations; Time Constraint: This is one of the major factors which hindered the quality of work undertaken. Due to inadequate time, the researcher could not acquire enough information from more books. The time scheduled to meet respondents was inconvenient to the researcher because sometimes she had to forgo lectures and other meetings. The combination of our academic studies with this project could have a bit of influence on the project work. Also, data was not readily available at all times and was also a big constraint. Getting the accurate data was very difficult, even when employees and senior management members were supposed to fill the questionnaires, some will misplace, others will not fill it at all and others will give wrong answers too.

Organization of the Study

This report of the study has been presented in five chapters. Chapter one is the introduction which discusses the background, the problem statement, the objectives, research questions, the significance and organization of the study.

Chapter two is literature review. Under this chapter, relevant literature on internal auditing has been discussed. These include such aspects as the definition of internal auditing, the evolution of internal auditing, the standards for the professional practice of internal auditing and similar topics.

Chapter three contains the methodology of the research. Topics covered include the population, sampling and sampling technique and data collection instrument, type of

data collected and sources, administration of the questionnaires and data analysis methods.

Chapter four includes the 'interpretation of the findings in reference to previous findings or related literature review, the evaluation of each finding and examination of its implications.

Chapter five, which is the last chapter, gives an overview of the research study and methodology. Here, the researcher summaries of the findings of the study, concludes and makes recommendations.

CHAPTER TWO

LITERATURE REVIEW

Introduction

This chapter deals with the review of relevant literature on internal audit and how it is practiced in business organizations all over the world. It discusses areas such as the definition of internal audit; evolution of internal auditing; objectives and functions of internal auditing; internal auditing activities; limitations of internal audit function; the need for an internal audit function; types of audit; independence of internal auditors; audit committee; audit reporting; internal auditing standards; ethics for internal auditors; internal audit planning; audit programs; internal control; and outsourcing of internal audit.

Definition of Internal Audit

A definition that is often quoted by most writers is the one given by Institute of Internal Auditors. The Institute of Internal Auditors defined Internal Auditing as "an independent, objective assurance and consulting activity designed to add value and improve an organization's operations". It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes. To this end, internal auditing furnishes them with analyses, appraisals, recommendations, and counsel and information concerning the activities reviewed (Iain et al, 2000).

According to this definition, an internal audit function could be viewed as a first line "defense" against inadequate organizational governance and functional reporting. With appropriate support from Board of Directors and audit



committee (if any), the internal audit staff is in the best position to gather intelligence on inappropriate accounting practices, inadequate internal controls, and ineffective corporate governance.

Evolution of Internal Auditing

According to Larry and Bradley (1997), internal auditing is performed throughout the world in diverse environments and within organizations that vary in purpose, size, and structure. They assert that the field of internal auditing has experienced dynamic growth in recent years. This rapid growth has been fueled, in part, by three main developments:

- i. Management's need for an independent appraisal of organizational departmental performance.
- ii. Increased emphasis on effective procedures to detect or prevent fraud.
- iii. Management's need for thorough evaluations of organizational control, with special emphasis on sophisticated computer systems.

They submit that internal auditing has grown from a group of "internal checkers" of 50 years ago to a profession performing complex computer audits, operational audits, analysis of operations, and special investigations for management and board of directors.

Objectives and Functions of Internal Auditing

According to ACCA Study Manual – Audit and Internal Review (2005), the internal audit function is responsible for evaluating, and commenting on the effectiveness of risk management, control and corporate governance process.

Tawiah (2006) sees the objectives of internal auditing as being part of its definition. He defined internal auditing as follows:

"Internal auditing is a systematic, objective appraisal by internal auditors of the diverse operations and controls within an organization to determine whether:

- Financial and operating information is accurate and reliable,
- Risks to the enterprise are identified and minimized,

- External regulations and acceptable policies and procedures are followed,

Diane and John (2000) identified the functions of internal auditing to include internal control; review of budgetary control and management information systems; compliance with policies, plans, procedures, laws and regulations; operational and 'value for money' audits; and special audits or investigations.

Internal Auditing Activities

Tom (1972) has identified the following as the activities of internal auditing.

i. Financial accounting – that is, verifying, testing and reporting on the suitability of the financial accounting information periodically supplied to company's management, including monthly, quarterly and six-monthly accounting reports on the company's profits and financial position; reports on the company's products and credit position, including the inventory it has in store, in process, in transit and on order; and reports on production and sales levels.

ii. Management accounting – that is, verifying, testing and reporting on the suitability of the periodic management and cost accounting information supplied to management, including monthly, quarterly and six-monthly Fanmilk products forecasts; periodic budgets of company costs, revenues, profits and financial position; and statements of standard costs, and analysis of the variances which have arisen between the budgeted and actual costs, revenues and profits.

iii. Internal control accounting – that is, verifying, testing and reporting on the effectiveness of the company's system of controls, with particular reference to the various safeguards in operation to prevent loss of company assets and to ensure the effectiveness of its accounting data process.

Diane and John (2000) state that in financial services clients, internal auditing is more likely to concentrate on security and control procedures. The nature and scope of internal auditing should always reflect the requirements of senior management and the expected benefits and costs.



Limitations of Internal Audit Function

The limitations of the internal audit function are many and varied. The following are some of the limitations.

- **Relationship between internal and external audit**

Internal and external audit should work closely together, with reliance by external audit on the work of internal audit. This is dependent on the two functions having common understanding of the organization's needs. Until an external audit function is available, internal auditing will not be very effective.

- **Variations of standards**

Approaches in internal audit vary significantly across the industry. Whilst some are moving to a more consultancy-type approach, others continue to perform a 'tick and check' approach.

- **Relatively new profession**

Internal audit is still a relatively new profession, which has been changing significantly over the years. A wide variety of backgrounds are attracted into internal audit. This prevents a lot of people from knowing the in-depth scope and functions of internal auditing.

The Need for an Internal Audit Function

Whether a company needs an internal audit function depends on many factors, including some of the following:

- The scale, diversity, and complexity of the company's activities.
- The number of employees.
- Cost/benefit considerations.
- The desire by directors and senior management for objective assurance and advice on risk and control.
- The need for assurance and advice in specialist areas such as health and safety, regulatory and legal compliance and environmental issues. (ACCA

Study Manual – Audit and Assurance Services, 2003).

Types of Internal Audit

Larry and Bradley (1997, p.14) have classified the types of audits performed by internal auditors as operational audits, compliance audits, financial audits, and computer systems audits.

Operational Audits: Operational audits are designed to evaluate the economy and efficiency with which resources are employed. An operational audit can be applied to virtually every facet of an organization's operations. Such audits are both challenging and interesting because the auditor is charged with developing objective criteria by which an operation can be evaluated, and the auditor by necessity becomes intimately familiar with many operational aspects of an organization. The emphasis is not on historical financial processing but on operational effectiveness. The auditor is expected to make constructive recommendations for improvement.

Compliance Audits: Management often wants to know whether its organizational policies are being complied with or whether external mandates, such as bond indenture restrictions or government loans and regulations, are being met. Other compliance audits might examine whether the company is meeting its environmental policies. A major part of most internal audit functions focuses on the quality of the organization's control structure and compliance with it.

Financial Audits: Financial audits are similar to those performed by the external auditor in the annual audit of a company's financial statements. The internal auditor evaluates the reliability of the financial records as well as the reliability and integrity of important financial processing systems. Since internal auditors are part of the organization, they are not in a position to provide independent attestation services to outside users. Often, however, they will coordinate this financial auditing works with that of the external auditor to provide a broad coverage at an economical cost for the organization.

Computer System Audits: Today's computer systems are becoming increasingly complex and are often integrated with other systems both within the organization and, ultimately, outside it. Because they operate within the organization, internal auditors have the unique ability to conduct regular audits of the computer systems throughout



the year. Internal auditors often develop sophisticated techniques to monitor the effectiveness of computer controls and operations throughout the year.

In addition to the above, William (2000) has identified forensic audit describing its purpose as the detection or deterrence of a wide variety of fraudulent activities.

Independence of Internal Auditors

For Whittington and Pany (2004), since internal auditors are employees of the organization, they cannot have the perceived independence of the external auditors. However, independence is still very important to internal auditors. They should maintain an impartial, unbiased attitude and avoid conflicts of interest. Independence of the internal auditing department is enhanced when the chief audit executive reports to a level of management of sufficient stature to ensure broad audit coverage, and adequate consideration and implementation of the auditors' recommendation. Ideally, the chief audit executive should report directly to the audit committee of the board of directors. Independence is also enhanced when potential conflicts of interest are considered in assigning staff to audit assignments. For, example, it would be a conflict of interest for an internal auditor to audit an area in which that individual was recently employed. It is difficult, if not impossible, to remain objective in evaluating one's own decisions.

Internal auditors hold independence, and the objectivity thus obtained, as a goal. Although internal auditors cannot be disassociated from their employers in the eyes of the public, they seek operational and reporting independence. Operationally, internal auditors should be independent when obtaining evidence in the sense of being free from direction or constraint by managers of the business unit under audit (Jack, 1996, p. 818).

For Donald (1994), internal auditors (who may be CPAs but not independent contractors) are employees of the organizations whose activities they appraise. Measures can be taken, however, to give the auditors some independence. He added that it is an oversimplification to say that external auditors are independent and internal auditors are not and independence is a continuous rather than a discrete concept.

For James (2006), internal audit departments basically perform a watchdog function. Over time, independence is eroded by the fact that, at the end of the day, an internal

auditor is an employee who functionally reports to the Chief Executive Officer. Though the issue of independence from management is widely preached, the Chief Executive Officer and sometimes the head of finance are involved in hiring and firing of internal audit department staff.

How to Make the Internal Audit Function Effective

Iain et al (2000) suggest that the following factors would be required to make the internal audit department effective;

- **Support of top management.** This support should also involve public support for the department in all parts of the organization to ensure as far as possible that auditors are treated with respect. It would be important that the role of internal audit and its powers are well understood within the organization. To a large extent, internal audit is as useful as management allows it to be.
- **A strong ethical culture** within the company and the department. Clearly the head of internal audit will play a vital role in this respect.
- **An appraisal system** that ensures that good work is properly rewarded, including promotion.
- **Good leadership of the department** ensures that all staffs are aware of objectives, suitable audit techniques and approaches, deadlines, etc.
- **Good communication links with all parts of the organization,** which ensure the necessary information is available and that reasonable deadlines are set for work to be performed.
- **Steps to ensure that staffs behave in a professional way at all times.** This would include the maintenance of an independent state of mind even where the auditor is involved in participative auditing.

The would mention here that internal auditors are often members of the professional accounting bodies, bodies that expect their members to develop their professionalism and to behave with honesty and integrity in all matters pertaining to their work. In recent years, the Institute of Internal Auditors has promoted the qualification of internal auditor and has operated an examination scheme for some time leading to qualification as internal auditor. One would



expect membership of professional bodies to be a factor enhancing the status of internal auditors.

Proposals made by the Research Committee of the Institute of Chartered Accountants of Scotland in 1993

The committee made the following proposals for improving the risk management of corporate organizations.

i. The document proposed an extended role for internal auditing. It was

recommended that all listed companies should have a strong internal audit department headed by a chief internal auditor. The purpose of the internal audit function would be to provide the board of directors with reassurance about the reliability and significant of the company's management information and internal control systems.

ii. One of the criticisms leveled at internal auditors is that they are not independent of the board of directors. In an attempt to remedy this it was recommended that as well as reporting to the chief executive of the company the internal audit reports should be directed to the Financial reporting and audit committee. This latter committee would be made up of non-executive directors and would approve the appointment and termination of the employment of the chief internal auditor.

iii. Since the internal auditor would be performing considerable detailed testing on the internal control systems of the company, this would have implications for the work of external auditor. It was suggested that the external auditors be called external assessors and that they be less concerned with detailed testing and procedural issues and more with judgmental issues

iv. In an attempt to reduce the expectations gap and meet some of the 'reasonable' expectations of the public, the discussion document suggested that the directors, in addition to their existing duties of reporting on the truth and fairness of the financial statements, should also report:

- whether they believe the company will remain a going concern for a period of at least 12 months from the date on which the directors approve the accounts;

- Whether the company has management information systems and internal control systems that are sufficiently relevant and reliable to enable the directors prepare the financial statements and provide assurance that the opportunities for fraud and other illegal activities are minimized.

To satisfy the latter requirements, companies would need to have a strong internal audit group. It is through internal audit work that the directors would be able to satisfy themselves that the internal controls systems are sufficiently strong to enable them to provide assurance in relation to fraud and illegal acts (Iain et al, 2000).

Reporting Relationships

According to James (2006), traditionally, the internal audit department has been a function embodied in many organizational charts. Typically, it is depicted with a dotted line with reporting structure to the Chief Executive officer (CEO). In practice, however, save for the organizations that fully recognize the role of internal audit, most internal audit departments report to the Head of Finance.

To function effectively, the internal audit department needs to operate independent of the functional departments and the senior management.

The internal auditor should report his findings to an official in the company who is not involved with directing or reviewing the work of the internal auditor. This is to ensure that some action will be taken on the reports and to ensure that adverse reports are not suppressed.

(i) It is therefore inappropriate for the internal auditor to report to the chief accountant because this individual is likely to be involved in setting and reviewing the work of the internal auditor. The accountant could therefore suppress or amend any unfavourable reports before they were shown to other senior persons in the company.

(ii) It would be more appropriate for the internal auditor to report to the board of the company because the directors would be independent of the person directing the work of the internal auditor. This group are therefore less likely to suppress or change the reports of the internal auditor and also more likely to ensure that appropriate action is taken on the reports.

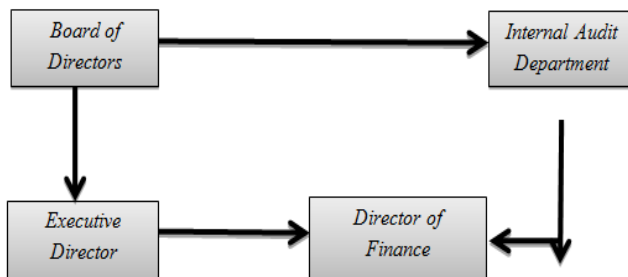
Unfortunately, the board may not understand the detail of the reports, or be too busy to review them in detail. It is

therefore possible for the board to appoint an audit committee to review the internal auditor's report in detail. Summaries of the reports along with recommendations would be given to the board for their approval.

The audit committee should be made up from a number of board members, and other officials not involved in setting or reviewing the internal auditor's work. Some non-executive directors could also be involved here. In this way independence of reviewing the internal audit reports is maintained (ACCA Study Manual – Audit and Assurance Services, 2003).

The Consultative Group to Assist the Poorest (CGAP) (1998) sees the following as the ideal reporting lines for internal auditing.

Figure 1 The Ideal Reporting Lines for Internal Auditing



It clearly shows that information flows follows the right procedure.

CGAP noted that some internal audit functions report to the director of finance for administrative matters such as staffing, payroll, and benefits.

Audit Committee

A possible definition of an audit committee is a committee consisting primarily of non-executive directors which are able to view a company's affairs in a detached and independent way and liaise effectively between the main board of directors and the external auditors.

For Iain et al (2000), an audit committee is a sub-committee of the main board (board of directors) comprised of three (at least) non-executive directors. Its duties may include advising on the appointment of auditors and on their remuneration.

Functions of Audit Committee

The Combined Code (the Combined Code of the Committee on Corporate Governance - UK, 1998) sets out the main role and responsibilities of the audit committee, which must be set out in a written terms of reference. These include:

- Monitoring the integrity of financial statements
- Reviewing the company's internal financial controls
- Monitoring and reviewing the effectiveness of the internal audit function (ACCA Study Manual - Audit and Internal Review, 2005).

The Smith Guidance on Audit Committees requires the audit committee to:

- review and assess the annual internal audit work plan
- receive periodic reports on the results of internal audit work review and monitor the responsiveness to the internal auditor's findings and recommendations (ACCA Study Manual - Audit and Internal Review, 2005).

Again, Whittington and Pany (2004) identified factors that bear on the effectiveness of the audit committee as including the extent of its independence from management, the experience and stature of its members, the extent to which it raises and pursues difficult questions with management and its interaction with the internal and external auditors. The audit committee of the board of directors should be composed of independent directors who are not officers or employees of the organization and do not have other relationships that impair independence. This enables the audit committee to be effective at overseeing the quality of the organization's financial reports, acting as a deterrent to management override of controls and to management fraud.

Internal Audit Charter

An internal audit charter, approved by the board, audit committee or other senior executive committee should be in place, setting out the objectives, scope and authority of internal audit. This should include a statement requiring access to everywhere in the organization.

Internal Auditing Standards



The Institute of Internal Auditors standards support the implementation elements in an internal audit function of corporate bodies and provide a framework for promoting quality audit work that is systematic, objective and based on evidence. To maintain a high quality of services provided by the internal audit profession, the Institute of Internal Auditors has issued standards known as Standards for the Professional Practice of Internal Auditing. These standards provide the criteria by which the operations of an internal auditing department should be evaluated and measured. The standards are mainly categorized into two: attributes standards and performance standards.

Ethics for Internal Auditors

Internal auditors, through The Institute of Internal Auditors, have developed their code of professional ethics. The Code of Conduct basically deals with internal auditors' obligation to employers as well as the issues on integrity, objectivity, and competency in the practice of internal auditing profession. The Code of Ethics is applicable to both individual internal auditors and entities that provide internal auditing services (Whittington and Pany, 2004).

Internal Audit Planning

Internal audit work must be planned and controlled in order to achieve the agreed objectives of the internal audit department, to establish audit priorities and to ensure the effective use of audit resources. Planning should be documented and should include:

- Establishing audit objectives and scope of work
- Obtaining background information about the activities to be audited
- Determining the resources necessary to perform the audit
- Communicating with all who need to know about the audit

The plan must be sufficiently flexible to allow for a prompt response to unscheduled audit work, e.g. special investigations or specific allegations of fraud (Boateng, 2000).

Stages in Internal Audit Planning

Millichamp (1997) describes the stages of internal audit planning as follows:

- i. Identify the objectives of the organization (the organization may have a mission statement).
- ii. Define the Internal Audit objectives.
- iii. Take account of relevant changes in legislation and other external factors (e.g. new legislation).

Objectives of Internal Audit Planning

According to the Internal Audit Agency (IAA) (2007), the objectives of audit planning are:

- To set out the way in which legal obligations and other audit priorities will be achieved;
- To identify the scope, objectives and anticipated outputs of audits;
- To define how the audit evidence necessary to achieve the objectives will be obtained and analyzed; and
- To identify the resources that will be needed and actually employed on audits and establish cost and time budgets.

Benefits of Internal Audit Planning

The Internal Audit Agency (2007) also identifies the following as the benefits of internal audit planning:

Rationality: the process and outputs of planning encourages a logical assessment of the tasks and the setting of clear objectives;

Prospective: tasks are set into their time dimension, so that a clearer view can be gained of priorities;

Co-ordination: the co-ordination of audit policies and actual audit work.

Audit Programs

The purpose of an audit program is to provide the auditor with a framework within which he should work and to give him a brief guidance on the system in operation and the records and forms in use.



Audit programs exist, or will need to be constructed, for every location and procedure shown on the audit plan.

The program will also indicate all the aspects which should be inspected assuming a full audit is to be carried out but in practice, the scope of the audit may be limited by an audit pre-plan which will prescribe which parts of the program should be undertaken and the depth of checking required (Boateng, 2000).

Audit Reporting

Audit reporting is the final phase of the audit process. PS 2060 of the Internal Audit Agency requires the chief audit executive to report periodically to the board and senior management on the internal audit activity's purpose, authority, responsibility, and performance relative to its plan. It also requires that reporting should include significant risk exposures and control issues, corporate governance issues, and other matters needed or requested by the board and senior management.

General Rules for the Internal Auditor's Report

The Internal Audit Agency (2007) documents the following as the rules to be observed in preparing the internal audit report.

- The audit objectives should also be described;
- Detailed descriptions which do not provide essential data for observations should be avoided;
- Findings and conclusions on all matters should fully be discussed with management their views, where appropriate, should be reflected in the reports;

Audit conclusions should be reported to appropriate levels of management and within a reasonable time period. The form and content of an internal audit report is usually left to the discretion of the internal auditor.

When a reportable condition, error fraud, or illegal act is discovered, its effects should be corrected and recommendations made to improve accountability (David, 2001).

Definition of Control

“Control is the employment of all the means devised in an enterprise to promote, direct, restrain, govern and check upon its various activities for the purpose of seeing that enterprise objectives are met. These means of control include, but are not limited to, form of organization, policies, systems, procedures, instruction, standards, charts of accounts, forecasts, budgets, schedules, reports, records, checklist, methods, devices and internal auditing.”

Definition of Internal Control

There have been differences in opinion about the meaning and objectives of internal control. Internal control has been defined by Whittington and Pany (2004) as a process, effected by the entity's board of directors, management, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the categories of

- (1) effectiveness and efficiency of operations,
- (2) reliability of financial reporting, and
- (3) compliance with applicable laws and regulations.

It consists of the policies and procedures established to provide reasonable assurance that the objectives of the company will be achieved, including the objective of preparing accurate financial statements.

Internal Auditor's Responsibility for Internal Control

According to Iain (2002), internal audit is an important part of the internal control system and its existence (or non-existence) to some extent reflects top management's attitude towards internal control. The existence of an internal audit department thus has an impact on the external auditor's assessment of control risk.

An important component of internal control is monitoring. Monitoring of controls is a process to assess the quality of internal control performance over time. It is important to monitor internal control to determine whether it is operating as intended and whether any modifications are necessary. Monitoring can be achieved by performing ongoing activities or by separate evaluations.

- Ongoing monitoring activities include regularly performed supervisory and management activities, such as continuous monitoring of customer complaints, or reviewing the reasonableness of management reports.



- Separate evaluations are monitoring activities that are performed on a nonroutine basis, such as periodic audits by the internal auditors. An important aspect of the organization's monitoring system is the internal auditing function. Internal auditors investigate and appraise internal

control and the efficiency with which the various units of the organization are performing their assigned functions, and report their findings and recommendations to top management. As representatives of top management, the internal auditors are interested in determining whether each branch or department has a clear understanding of its assignment; is adequately staffed; maintains good records; properly safeguards fanmilk products, inventories, and other assets; and cooperates harmoniously with other departments.

Thus the internal auditor has extensive responsibilities for internal control but that does not include setting up or installing systems of internal control. (However they may be involved with that process under the direction of management.) Pany (2004).

Statements on Internal Auditing Standards (SIAS 1) tell us that all control processes are subject to the internal audit to determine if:

- there is reasonable assurance that objectives and goals have indeed been established;
- control systems are adequate to enhance their achievement and are working to that end; and
- The planned results have been achieved. The Statements on Internal Auditing Standards 1 encompasses key aspects of the control process and the internal auditor's responsible for evaluating it. But control is a broad subject; it encompasses anything that enhances operations according to management's

objective. The professional internal auditor needs to have an intimate familiarity with the concepts of control and its application to varied kinds of audits (Tawiah, 2006).

Outsourcing of Internal Audit

When outsourced, a specialized service provider other than company employees performs a portion or all of the internal auditing function. In some cases, Certified Public

Accounting (CPA) firms that also performed the audit of financial statements provided major portions of the internal auditing functions for companies (Whittington and Pany, 2004).

Advantages of Outsourcing

James (2006) describes the advantages of Outsourcing as follows.

i. Enhanced independence

Outsourcing provides a perfect solution to the independence issue, where the reporting is done directly to the audit committee. The management is only involved in providing a platform for conducting the audit. This way the internal auditor is able to provide services independently without fear or favour.

ii. Variety of skills

Outsourced services come with a wide variety of skills. Different people possessing different skills come with new ideas and look at business processes from different angles. Blending and rotating members in an outsourced arena offer different expertise such as information technology review, business process specialists, trend and analytical review. In-house audit departments are normally allocated limited budgets that in turn limit the availability of diversified skills.

iii. Familiarity and acceptance

Familiarity breeds contempt. In-house staff gradually becomes too familiar with colleagues at their work place resulting in them becoming part of the system of suffering contempt. Once they become part of the system, they end up overlooking significant weaknesses in internal control procedures. In such a case, they are not able to detect and advise the management on weaknesses within the organization. Once they suffer contempt, their reports are reviewed with skepticism rather than corrective. In an outsourced scenario, internal auditors do not interact from time to time with the management thereby minimizing chances of familiarity.

iv. Flexibility to terminate

Staff rationalization, downsizing, and retrenchment are becoming popular terms in today's world. Certain moral and financial technicalities set in when organizations plan to downsize, for example, joblessness and payment of



retrenchment package. Outsourced audit services can be terminated without much hustle by way of a notice from either party.

RECENT INTERNAL AUDIT FRAMEWORK

□ 2. Internal Audit Framework 2

□ 3. WHAT? 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. [The Institute of Internal Auditors, USA] Remember, The definition of I/A provides comprehensive guidelines for the framework of internal audit. It should always be kept in mind while I/A work is being carried out. It helps in devising the complete internal audit approach. Internal Audit Framework 3

□ 4. WHY? Internal Audit Framework 4 The main objectives of I/A are: ► to provide assurance on the adequacy, efficiency and effectiveness of the whole control environment, ► advise at an early stage in the implementation of any system developments, amendments to processes, making recommendations in the formation of policies, procedures and controls, and ► noting deviations from organizational policies, procedures and controls and recommending actions to mitigate the risks arising out of such deviations. Further I/A provides: assurance that the organization's values are preserved, and♥ that rules, laws and regulations are complied with in their letter and spirit.♥ to ensure that financial statements and other information are accurate and♥ reliable and that human, financial and other resources are managed efficiently and♥ effectively, wider anti-fraud and anti-corruption framework for a company,♥ both feedback and feed forward controls.♥

□ 5. TYPES Internal Audit Framework 5 Following types of audits make the framework of I/A: Compliance audit: To ensure compliance with rules, { regulations and laws applicable to a company. Operational audit: To ensure efficient and effective conduct of { operations of a company. Information system audit: To ensure proper functioning of { the information system throughout the life of a business. Performance audit: To ensure the efficient use of resources to { obtain the objectives of a company. Environmental audits: To ensure compliance with the { environmental laws

and regulations. Special assignments relate to investigations on fraud and { corruption, or any other special service with the approval of the board.

□ 6. INDEPENDENCE & OBJECTIVITY Internal Audit Framework 6 The internal audit activity must be free from interference by any influence that hinders the progress of work, including matters of audit selection, scope, procedures, frequency, timing, or report content to permit maintenance of a necessary independent and objective mental attitude. Internal auditors should have no direct operational responsibility or authority over any of the activities audited. Accordingly, they will not implement internal controls, develop procedures, install systems, prepare records, or engage in any other activity that may impair internal auditor's judgment. Internal auditors must exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. Internal auditors must make a balanced assessment of all the relevant circumstances and not be unduly influenced by their own interests or by others in forming judgments. Chief Audit Executive (CAE) should confirm to the board, at least annually, the organizational independence of the internal audit activity. An approved internal audit charter and a competent audit committee may protect the independence of the internal audit activity.

□ 7. ASSURANCE & CONSULTING ACTIVITY Internal Audit Framework 7 Assurance services are the services that improve the quality of information about the processes, effectiveness of controls, reliability of information, or compliance with statutory framework, efficiency and effectiveness of the operations being carried out. Consulting services means that apart from highlighting problems, internal auditors provide quality solutions to the problems. It is very much a value adding service. Remember, Internal auditors do not implement their recommendations. Implementation of ζ solution alternatives is the sole responsibility of the management. The I/A's powers pertain to recommendations only. The internal auditors should setup a mechanism to monitor objectivity in every ζ assurance and consulting activity. Prompt actions must be taken to prevent potential loss to objectivity. The internal auditors should review the potential loss and impairment to their ζ independence during and after the work, by any action of the management.



□ 8. **ROLE IN GOVERNANCE PROCESS** Internal Audit Framework 8 Management is primarily responsible for overall risk management. Internal audit activity assesses risks embedded in all functions across all the departments of a company and recommends controls to mitigate them. The purpose is to eliminate all risks in the system. The successful elimination of all risks ensures efficient and effective accomplishment of business plans and guarantees business success. Management has a key role to play in the development and implementation of controls system. The assessment of the risks by the internal auditors provides refinement to the process of control systems. The reinforcement of controls upon the recommendation of the internal auditors helps a company in improving the effectiveness of risk management, control system and governance process.

□ 9. **AUDIT COMMITTEE** Internal Audit Framework 9 An audit committee is an arm of the board of directors, generally composed of 3 to 5 members of the board, with a chairperson selected from among the committee members. The members should be board members and outsiders i.e. the individuals who are neither employees nor part of management. The audit committee has an oversight responsibility for internal and external audit functions. Audit committee acts as an independent check on management and helps the external financial statements' users in assuring that financial statements accurately portray the business activities of a company. And that effective internal control system is in place. Further, all laws and regulations are complied by the company.

□ 10. **INTERNATIONAL PROFESSIONAL PRACTICES FRAMEWORK (IPPF)** Internal Audit Framework 10 Mandatory Guidance Strongly Recommended Guidance Definition of I/A Code of Ethics The standards Position Papers (PPs) Practice Advisories (PAs) Practice Guides (PGs)

□ 11. **THE STANDARDS** Internal Audit Framework 11 Internal auditors carry out their work in accordance with the given set of rules, guidelines, regulations and standards. These standards are provided by the Institute of Internal Auditors, USA, are known as, International Standards for the Professional Practice of Internal Auditing (the standards). The standards provide guidance on assurance and consulting activities of an internal auditor. The application of these standards is mandatory for internal auditors during their work. Following are the types of the standards: Attribute Standards pertain to the company and

team/staff performing the audit work. Performance Standards are about the nature of internal auditing and provide quality criteria for the performance of the work. Implementation Standards provide guidance for each attribute or performance standard to be applicable to assurance (A) or consulting (C) activity.

□ 12. **AUTHORITY** Internal Audit Framework 12 The staff of Internal Audit Department reports to CAE who reports to Audit Committee or the board directly. CAE has full and free access to the audit committee or the board for discussion and resolution of all matters and issues pertaining to his work. For administrative purposes, CAE may report to CEO/GM but for functional purposes shall always report to audit committee or the board directly. Internal audit is fully authorized to: Have complete and unrestricted access to records, personnel, and physical properties/assets relevant to the performance of I/A engagement. Delegate duties, allocate resources, select team, determine scope of work, budget time & cost, and select required techniques/procedures to accomplish objectives. Obtain necessary assistance of personnel in audited company and other specialized services within or outside the organization. Internal audit staff is not authorized to: Perform any operational duties for a company. Initiate or approve accounting transactions external to the Internal Audit Department. Direct the activities of any department's employees not employed by the Internal Audit Department, except those who have been assigned to assist the audit team.

□ 13. **Internal Audit Framework 13 RESPONSIBILITY** CAE normally performs the following responsibilities: Provide annual assessment on the effectiveness of the company's controls in managing all risks and activities. Identify and assess potential risks to the operations during a particular year. Review the adequacy of controls established to ensure compliance with policies, plans, procedures, management guidelines, and business objectives. Provide periodic information on the status of the annual audit plan and the sufficiency of the Internal Audit Department's resources. Present a periodic (say monthly/quarterly) report to the audit committee. Assess the reliability and security of the information produced from financial, management, and operations system of the company. Assess the means of safeguarding assets and resources. Review established procedures & systems and propose improvements. Appraise the use of resources with regard to economy,



efficiency and effectiveness.∞ Follow up recommendations to make sure that effective remedial action is taken.∞

□ 14. RESPONSIBILITY (continued) Internal Audit Framework 14 Carry out appraisals, investigations, or reviews requested by the management.π CAE and staff of the Internal Audit Department, in the discharge of their duties,π have the responsibility to:

- Develop an annual audit plan based on comprehensive risk assessment, including risks identified by the management.
- Submit the annual audit plan to the audit committee or the board for approval.
- Implement the annual audit plan as approved, including special requests by management.
- Issue periodic reports to the audit committee summarizing the results of the audit.
- Coordinate with and provide oversight of other controls and monitoring functions related to risk management, compliance, security, ethics, and environmental issues.
- Assist in the investigation of suspected fraudulent activities within the organization upon request made from management.
- Consider the scope of work of the external auditors and regulators to provide wider audit coverage.
- Consider the scope of work required of external service providers or consultants.

□ 15. CONTROL ENVIRONMENT Internal Audit Framework 15 The philosophy, attitude and actions of the board and management regarding the importance and existence of control system within the organization defines the control environment. The control environment provides the discipline and structure for the achievement of the primary objectives of the system of internal controls. The control environment includes the following elements: Integrity∅& ethical values, Management's philosophy∅& operating style, Organizational structure,∅ Assignment of authority∅& responsibility, Human resource policies∅& practices, and Competence of personnel.∅ N.B.: External auditors consider internal audit framework as a component of the control environment.

□ 16. FRAUD DETERRENCE Internal Audit Framework 16 Managing the risk of fraud and corruption is the responsibility of management. Audit procedures alone, even when performed with due professional care, cannot guarantee the detection of fraud or corruption, illegal practices. Internal auditors do not have responsibility for the prevention or detection of fraud and corruption. Internal auditors will, however, be alert in all their work to risks and exposures that could allow them to find fraud or corruption.

Internal auditors may be requested by management to assist in fraud examination work.

□ 17. SCOPE Internal Audit Framework 17 The scope of internal auditing encompasses, but is not limited to, the examination and evaluation of the adequacy and effectiveness of the organization's governance, risk management, and internal process as well as the quality of performance in carrying out assigned responsibilities to achieve the organization's stated goals and objectives. This scope of I/A generally includes the following: Evaluating the reliability and integrity of information and the meansΦ used to identify, measure, classify, and report such information. Evaluating the systems established to ensure compliance with thoseΦ policies, plans, procedures, laws, and regulations which could have a significant impact on the organization. Evaluating the means of safeguarding assets and, as appropriate,Φ verifying the existence of such assets. Evaluating the effectiveness and efficiency with which resources areΦ employed.

□ 18. INTERNALAUDIT CHARTER Internal Audit Framework 18 According to the standards, the purpose, scope, authority and responsibility must be clearly mentioned in an internal audit charter. A typical internal audit charter outlines the following information: 1. Mission 2. Scope 3. Responsibilities of management 4. Responsibilities of internal auditors 5. Relationship with external auditors 6. Status of internal auditors 7. Authority of internal auditors 8. Reporting 9. Conclusion N.B.: Internal audit charter must be reviewed on periodic basis and should be approved by the board. It helps a lot in the conduct of work. For all special assignments approval should be taken from the board.

□ 19. ANNUALAUDIT PLAN In cooperation with the senior management, perform the following: Conduct a preliminary risk assessment by utilizing a groupf interview. Gather top management input on the preliminary riskf assessment. Prepare a Draft Annual Audit Plan based upon the results off the risk assessment process. Obtain the formal approval of the Audit Committee or thef board. This plan will be subject to reviews during the course of audit work to ensure that the focus continues to be on the higher risk areas. In addition, the need to conduct special assignments requested from the Audit Committee and senior management may also require the deferral of planned audit work. Additional work may require additional staff and the help of specialist or consultant coming from outside the



company. N.B.: The approval of audit committee is suffice, however, where no audit committee is existing, approval of the board should be taken. Internal Audit Framework 19

□ [20.](#) COMMUNICATION OF I/A PLAN Distribute annual audit plan to senior management.] Keep senior management informed of all changes made to] annual audit plan. Ensure that management is informed about the internal audit work] at least a month prior to starting the work. Note that special assignments may require different procedures] involving little or no notification to management. If there is any special assignment going parallel with the normal] audit work, intimation should be made about the time frame for the completion of the additional assignment to audit committee and management. If there is need for additional persons in the team because of] additional work, raise the requisition at most appropriate time. Internal Audit Framework 20

□ [21.](#) INTERNALAUDIT PROCESS FOR ALL BUSINESSES

□ [22.](#) PLANNING Internal Audit Framework 22 Evaluating operations or programs to ascertain whether results are] consistent with established objectives and goals and whether the operations or programs are being carried out as planned. Monitoring and evaluating governance processes.] Monitoring and evaluating the effectiveness of the organization's risk] management processes. Evaluating the quality of performance of external auditors and the degree] of coordination required with internal audit work. Performing consulting and advisory services related to governance, risk] management and control as appropriate for the company. Reporting periodically on the internal audit activity's purpose, authority,] responsibility, and performance relative to its plan. Reporting significant risk exposures and control issues, including fraud] risks, governance issues, and other matters needed or requested by the Board. Evaluating specific operations/activities/processes at the request of the] board or management, as appropriate.

□ [23.](#) PERFORM AUDIT FIELDWORK Carry out fieldwork as indicated in the annual audit] plan. Obtain cooperation from the management and the staff] as necessary to identify, obtain documentation and conduct interviews, etc. Conduct fieldwork with minimal disruption to] operations of the company being audited. Build friendly

environment with the management.□ Internal Audit Framework 23

□ [24.](#) Internal Audit Framework 24 RISK COMPOSITION Internal audit has a responsibility to cover financial, operational, information system, legal/regulatory and all other risks that may have significant impact on the business of an entity.

□ [25.](#) RISK MANAGEMENT PROCESS Internal Audit Framework 25 Risk identificationπ Expert interviews with management personnel] Risk assessment meetings with the relevant persons] Review of previous risk assessment working papers by I/A department] Filling detailed questionnaires for adequate existence of internal controls] Ensuring the appropriateness of these questionnaires in alignment with the] operations of the company C]carefully reviewing the results of internal audit questionnaires and marking red flags where serious control violations are found Reviewing management working papers for risk assessments made by] them Reviewing system descriptions available from management and from] available manuals for operations, financial controls and accounting and noting down risks, weak controls or absence of controls Risk qualificationπ& prioritization Risk monitoringπ Risk mitigationπ& avoidance

□ [26.](#) Internal Audit Framework 26 Risk identificationπ Risk qualificationπ& prioritization Once risks are identified, it is important to determine the probability and impact of each risk on efficient and effective conduct of the business activities. Risks which are more likely to occur and have a significant impact on the business will be the highest priority risks while those which are more unlikely or have a low impact will be a much lower priority. This is usually done with a probability – impact matrix. Once the risks are assigned a probability/impact and placed in the appropriate position on the chart, the auditor moves the process to the next step: risk monitoring.. Risk monitoringπ Risk mitigationπ& avoidance RISK MANAGEMENT PROCESS

□ [27.](#) Internal Audit Framework 27 RISK MANAGEMENT PROCESS Risk identificationπ Risk qualificationπ& prioritization Risk monitoringπ Normally each control is assigned a number say 1 to 5, 1 is showing the lowest strength and 5 showing the highest strength of a control. Internal audit assigns these numbers to each control. And after all controls are marked with these numbers then an average is taken by adding all numbers and dividing them



by the number of controls. The number obtained defines overall strength of the set of controls being examined. Based on the overall strength of controls extent of work is calculated. Risk mitigation & avoidance

28. Internal Audit Framework 28 RISK MANAGEMENT PROCESS Risk identification Risk qualification & prioritization Risk monitoring Risk mitigation & avoidance Once risks have been qualified, the team must determine how to eliminate those risks which have the greatest probability and impact on the business. This section explains the considerations which must be made and the options available to the management in mitigating and avoiding these risks. Internal auditor shall exercise his judgment as to how, he can eliminate the risks identified during the process. After examination is completed, he shall recommend management in writing to follow certain procedures that shall ensure elimination of risks.

29. Risk Register Internal Audit Framework 29 The purpose of risk management is to proactively establish programs and processes that support business objectives while protecting the organization's assets—its employees, property, income and reputation—from loss or harm, at the lowest possible cost. The risk register will help the organization record the following risk management information: Type of risk, who raised it and how it could affect the organization. Likelihood of the risk occurring and its potential impact to the organization. Risk priority, based on its effect on the organization. Actions taken to prevent the risk from happening. Risk mitigation/reduction actions taken in case the risk does occur. Robert E. Higgins, CIC, CRM

30. Components of Risk Register Internal Audit Framework 30 Date: As the risk register is a living document, it is important to record the date that risks are identified or modified. Optional dates to include are the target and completion dates. Risk number: A unique identifying number for the risk. Risk description: A brief description of the risk, its causes and its impact. Existing controls: A brief description of the controls that are currently in place for the risk. Consequence: The consequence (severity or impact) rating for the risk, using scales (e.g., 1-5, with 5 being most severe). Likelihood: The likelihood (probability) rating for the risk, using scales (e.g., 1-5, with 5 being most likely). Overall risk score: Determined by multiplying likelihood (probability) times

consequence (impact) for a scale ranging from 1 to 25. Risk ranking: A priority list which is determined by the relative ranking of the risks by their overall risk score. Risk response: The action which is to be taken if the risk occurs. Trigger: Something which indicates that a risk is about to occur or has already occurred. Risk owner: The person whom the project manager assigns to watch for triggers, and manage the risk response if the risk occurs. Robert E. Higgins, CIC, CRM

31. Internal Audit Framework 31 <Company Name> File No.: <xxx> Rating for Likelihood and Seriousness for each risk L Rated as Low E Rated as Extreme (Used for Seriousness only) M Rated as Medium NA Not Assessed H Rated as High Grade: Combined effect of Likelihood/Seriousness Seriousness Likelihood Low Medium High EXTREME Low E D C A Medium D C B A High C B A A Risk Register Template Risk Register for the year ending on... <Date> Audit Manager: <Name> Audit Scope: <A brief description of the scope of the work>

32. Internal Audit Framework 32 Recommendations Grade Risk Mitigation Actions A Mitigation actions to reduce the likelihood and seriousness to be identified and implemented as soon as the project commences. B Mitigation actions to reduce the likelihood and seriousness to be identified and appropriate actions implemented during project execution. C Mitigation actions to reduce the likelihood and seriousness to be identified and costed for possible action if funds permit. D To be noted - no action is needed unless grading increases over time. E To be noted - no action is needed unless grading increases over time.

33. Examples of Risk Rating Internal Audit Framework 33 # Description of Risk Identify consequences Likelihood Seriousness Grade Change Mitigation Actions Responsible Officer Cost 1.1 Inadequate funding to complete the project M M B New Re-scope project, focusing on time and resourcing Project Manager NA 1.2 Lack of technical skills in partner H H A Develop training plan Consultant 2000 1.3 Too much dependence on the work of sub-contractors H H A Written Assurance from partner Partner NA

34. REPORT RESULTS Share important and sensitive findings with responsible managers immediately upon verification; short memo reports may be used in this process of communication. Make notes of the comments/responses of the management/personnel on all observations discussed with them. Prepare a first draft of the final report and



discuss it with responsible managers immediately following the fieldwork. Internal Audit Framework 34

□ [35.](#) FINALIZE AUDIT WORK Schedule an exit meeting after management has received the first draft of the audit report; this meeting will provide the opportunity for management to discuss findings, conclusions, and recommendations with the auditor. During or immediately after exit meeting, I/A requests management to provide their responses to the auditor's findings and recommendations, either in writing or in sufficient detail for the auditors to capture them and reduce them to writing in the final draft report. Internal Audit Framework 35

□ [36.](#) REVIEW FINAL REPORT Send final draft of the audit report to management and discuss suggested changes by them. After processing changes, issue the final report to the distribution as indicated on the cover letter to the report. Note All reports contain an executive summary which provides in a short form the observations, risks, recommendations, management responses, and auditor's conclusion on his work. Internal Audit Framework 36

□ [37.](#) FINAL REPORT Issue final report to the management.≡ Prepare checklist of issues to be≡ discussed with the management in next period audit. Write down the comments of the≡ management on audit report. Internal Audit Framework 37

□ [38.](#) FOLLOW UP At the completion of each audit, the auditor will send an evaluation survey form to the clients of the audit. This form should be completed and returned to the Office of Internal Audit, in order to ensure continuous improvement of these procedures and the internal audit function. Approximately six months following completion of each audit, the auditor will conduct a follow-up review to verify the completion of agreed-upon management actions and ascertain the status of open recommendations. A follow-up report will be generated annually for distribution to senior management and members of the Audit Committee. Internal Audit Framework 38

□ [39.](#) AVOID PITFALLS Internal Audit Framework 39 Richard Chambers, CIA, has shared his experience about failure of internal audit assignments. He has mentioned 6 main reasons for the failure of internal audit. They are as given below: 1. Not setting aside enough time to properly plan the audit work. Proper planning is the glorious road to successful audit work. 2. Trying to audit too much, be relevant to risk. Keep one eye on relevance of work being

done with overall objectives of the audit. 3. Not involving the client or the auditee personnel. 4. Failing to augment the audit team with "functional expertise". 5. Forgetting that the audit should ultimately add value. 6. Forgetting to follow the risks. New risks may emerge during the progress of audit work. Change work plan according to them.

□ [40.](#) Internal vs. External Auditing Internal Audit Framework 40 # Internal Audit External Audit 1 Internal auditors are appointed and removed by the management of the company any time. External auditors are appointed and removed by the shareholders directly during AGM. 2 The scope of I/A is much broader and covers all risks to a business entity. The scope of E/A is specified in the terms of reference signed with the company. 3 The objective of I/A is to help management in risk management and add value by creating efficiency in systems and finally obtain the objectives of a business entity. The objective of E/A is to report on the truth and fairness of the financial statements by examining underlying records and based on the evaluation of evidence gathered during the work. 4 Internal auditors report to the audit committee. External auditors report to the shareholders' representatives, the members on the board of directors. They directly interact with members while sitting in AGM or EGM. 5 The report of internal auditors is shared with management via audit committee. The report of external auditors is shared with the shareholders and after being published is shared with public, in the case of listed company having share capital from public.

□ [41.](#) CODE OF ETHICS - FOR INTERNALAUDITORS AS GIVEN BY THE IIA, USA

□ [42.](#) PRINCIPLES Internal Audit Framework 42 The internal auditors are expected to apply and uphold the following principles: Integrity□ The integrity of internal auditors establishes trust and thus provides the basis for reliance on their judgment. Objectivity□ Internal auditors exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. Internal auditors make a balanced assessment of all the relevant circumstances and are not unduly influenced by their own interests or by others in forming judgments. Confidentiality□ Internal auditors respect the value and ownership of information they receive and do not disclose information without appropriate authority unless there is a legal or professional obligation to do so. Competency□



Internal auditors apply the knowledge, skills, and experience needed in the performance of internal audit services..

□ [43.](#) RULES OF CONDUCT Internal Audit Framework 43 1. Integrity Internal Auditors: Shall perform their work with honesty, diligence, and responsibility. Shall observe the law and make disclosures expected by the law and the profession. Shall not knowingly be a party to any illegal activity, or engage in acts that are discreditable to the profession of internal auditing or to the organization. Shall respect and contribute to the legitimate and ethical objectives of the organization. 2. Objectivity Internal Auditors: Shall not participate in any activity or relationship that may impair or be presumed to impair their unbiased assessment. This participation includes those activities or relationships that may be in conflict with the interests of the organization. Shall not accept anything that may impair or be presumed to impair their professional judgment. Shall disclose all material facts known to them that, if not disclosed, may distort the reporting of activities under review.

□ [44.](#) Internal Audit Framework 44 3. Confidentiality Internal Auditors: Shall be prudent in the use and protection of information acquired in the course of their duties. Shall not use information for any personal gain or in any manner that would be contrary to the law or detrimental to the legitimate and ethical objectives of the organization. 4. Competency Internal Auditors: Shall engage only in those services for which they have the necessary knowledge, skills, and experience. Shall perform internal audit services in accordance with the International Standards for the Professional Practice of Internal Auditing. Shall continually improve their proficiency and the effectiveness and quality of their services. RULES OF CONDUCT (continued)

□ [45.](#) INTERNALAUDIT - OFFICIAL TERMINOLOGY AS PROVIDED BY THE IIA, USA

□ [46.](#) Internal Audit Framework 46 1. Add Value The internal audit activity adds value to the organization (and its stakeholders) when it provides objective and relevant assurance, and contributes to the effectiveness and efficiency of governance, risk management, and control processes. 2. Adequate Control Present if management has planned and organized (designed) in a manner that provides reasonable assurance that the organization's risks have been managed effectively and that the organization's goals and objectives will be achieved efficiently and economically. 3.

Assurance Services An objective examination of evidence for the purpose of providing an independent assessment on governance, risk management, and control processes for the organization. Examples may include financial, performance, compliance, system security, and due diligence engagements. 4. Board A board is an organization's governing body, such as a board of directors, supervisory board, head of an agency or legislative body, board of governors or trustees of a nonprofit organization, or any other designated body of the organization, including the audit committee to whom the chief audit executive may functionally report. 5. Charter The internal audit charter is a formal document that defines the internal audit activity's purpose, authority, and responsibility. The internal audit charter establishes the internal audit activity's position within the organization; authorizes access to records, personnel, and physical properties relevant to the performance of engagements; and defines the scope of internal audit activities.

□ [47.](#) Internal Audit Framework 47 6. Chief Audit Executive Chief audit executive describes a person in a senior position responsible for effectively managing the internal audit activity in accordance with the internal audit charter and the Definition of Internal Auditing, the Code of Ethics, and the Standards. The chief audit executive or others reporting to the chief audit executive will have appropriate professional certifications and qualifications. The specific job title of the chief audit executive may vary across organizations. 7. Code of Ethics The Code of Ethics of The Institute of Internal Auditors (IIA) are Principles relevant to the profession and practice of internal auditing, and Rules of Conduct that describe behavior expected of internal auditors. The Code of Ethics applies to both parties and entities that provide internal audit services. The purpose of the Code of Ethics is to promote an ethical culture in the global profession of internal auditing. 8. Compliance Adherence to policies, plans, procedures, laws, regulations, contracts, or other requirements. 9. Conflict of Interest Any relationship that is, or appears to be, not in the best interest of the organization. A conflict of interest would prejudice an individual's ability to perform his or her duties and responsibilities objectively. 10. Consulting Services Advisory and related client service activities, the nature and scope of which are agreed with the client, are intended to add value and improve an organization's governance, risk management, and control processes without the internal auditor assuming management responsibility. Examples include counsel, advice, facilitation, and training. 11.



Control Processes The policies, procedures, and activities that are part of a control framework, designed to ensure that risks are contained within the risk tolerances established by the risk management process.

□ [48.](#) Internal Audit Framework 48 12. Control Any action taken by management, the board, and other parties to manage risk and increase the likelihood that established objectives and goals will be achieved. Management plans, organizes, and directs the performance of sufficient actions to provide reasonable assurance that objectives and goals will be achieved. 13. Control Environment The attitude and actions of the board and management regarding the importance of control within the organization. The control environment provides the discipline and structure for the achievement of the primary objectives of the system of internal control. The control environment includes the following elements: Integrity and ethical values.θ Management's philosophy and operating style.θ Organizational structure.θ Assignment of authority andθ responsibility. Human resource policies and practices.θ Competence of personnel.θ 14. Control Processes The policies, procedures, and activities that are part of a control framework, designed to ensure that risks are contained within the risk tolerances established by the risk management process. 15. Engagement A specific internal audit assignment, task, or review activity, such as an internal audit, control self- assessment review, fraud examination, or consultancy. An engagement may include multiple tasks or activities designed to accomplish a specific set of related objectives. 16. External Service Provider A person or firm outside of the organization that has special knowledge, skill, and experience in a particular discipline.

□ [49.](#) Internal Audit Framework 49 17. Engagement Objectives Broad statements developed by internal auditors that define intended engagement accomplishments. 18. Engagement Work Program A document that lists the procedures to be followed during an engagement, designed to achieve the engagement plan. 19. Fraud Any illegal act characterized by deceit, concealment, or violation of trust. These acts are not dependent upon the threat of violence or physical force. Frauds are perpetrated by parties and organizations to obtain money, property, or services; to avoid payment or loss of services; or to secure personal or business advantage. 20. Governance The combination of processes and structures implemented by the board to inform, direct, manage, and monitor the activities of the organization toward the achievement of its objectives. 21.

Impairment Impairment to organizational independence and individual objectivity may include personal conflict of interest, scope limitations, restrictions on access to records, personnel, and properties, and resource limitations (funding). 22. Independence The freedom from conditions that threaten the ability of the internal audit activity to carry out internal audit responsibilities in an unbiased manner. 23. Information Technology Controls Controls that support business management and governance as well as provide general and technical controls over information technology infrastructures such as applications, information, infrastructure, and people.

□ [50.](#) Internal Audit Framework 50 24. Information Technology Governance Consists of the leadership, organizational structures, and processes that ensure that the enterprise's information technology supports the organization's strategies and objectives. 25. Internal Audit Activity A department, division, team of consultants, or other practitioner(s) that provides independent, objective assurance and consulting services designed to add value and improve an organization's operations. The internal audit activity helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of governance, risk management and control processes. 26. International Professional Practices Framework (IPPF) The conceptual framework that organizes the authoritative guidance promulgated by The IIA. Authoritative Guidance is comprised of two categories – (1) mandatory and (2) strongly recommended. 27. Must The Standards use the word "must" to specify an unconditional requirement. 28. Objectivity An unbiased mental attitude that allows internal auditors to perform engagements in such a manner that they believe in their work product and that no quality compromises are made. Objectivity requires that internal auditors do not subordinate their judgment on audit matters to others. 29. Risk Appetite The level of risk that an organization is willing to accept. 30. Risk Management A process to identify, assess, manage, and control potential events or situations to provide reasonable assurance regarding the achievement of the organization's objectives.

□ [51.](#) Internal Audit Framework 51 31. Should The Standards use the word "should" where conformance is expected unless, when applying professional judgment, circumstances justify deviation. 32. Significance The relative importance of a matter within the context in which it is being considered, including quantitative and qualitative



factors, such as magnitude, nature, effect, relevance, and impact. Professional judgment assists internal auditors when evaluating the significance of matters within the context of the relevant objectives. 33. Residual Risk The risk remaining after management takes action to reduce the impact and likelihood of an adverse event, including control activities in responding to a risk. 34. Risk The possibility of an event occurring that will have an impact on the achievement of objectives. Risk is measured in terms of impact and likelihood. 35. Standard A professional pronouncement promulgated by the Internal Audit Standards Board that delineates the requirements for performing a broad range of internal audit activities, and for evaluating internal audit performance. 36. Technology-based Audit Techniques Any automated audit tool, such as generalized audit software, test data generators, computerized audit programs, specialized audit utilities, and computer-assisted audit techniques (CAATs).

□ [52.](#) LIST OF INTERNALAUDIT SOFT-WARES FOR ALL KINDS OF BUSINESSES

□ [53.](#) Internal Audit Framework 53 # Software name Website 1 TeamMate <http://www.teammatesolutions.com> 2 Compliance 360 <http://www.compliance360.com> 3 MetricStream Internal Audit Management Software Solution <http://www.metricstream.com> 4 Audit Management Software - MKinsight <http://www.mkinsight.com> 5 Methodware <http://www.methodware.com> 6 easy2comply Internal Audit Management software <http://www.easy2comply.com> 7 Barnowl Internal Audit <http://www.barnowl.co.za> 8 Cura Audit <http://www.curasoftware.com> 9 Enterprise GRC For Internal Audit <http://accelus.thomsonreuters.com> 10 RSAArcher Audit Management <http://www.emc.com> 11 TrackWise audit management software <http://www.spartasystems.com> 12 Enablon IA - Internal Audit <http://enablon.com>

□ [54.](#) Internal Audit Framework 54 # Software name Website 13 Symbiant Tracker <http://www.symbiant.co.uk> 14 ACL <http://www.cqs.co.za> 15 Mega internal audit management solution <http://www.mega.com> 16 Galileo Audit Management <http://www.horwathsoftware.com> 17 BPS Resolver's GRC Suite <http://www.bpsresolver.com> 18 IBM® OpenPages® Internal Audit Management <http://www-142.ibm.com/software> 19 RSM TENON <http://www.rsmtenon.com/Services/Internal-Audit/Internal-Audit-Tools.aspx> 20 Intalex's Audits Management Software <http://www.intalex.com> 21 Rivo's web-based, Audit <http://www.rivosoftware.com> 22 KMI's Audit & Inspection

module <http://www.kminnovations.com> 23 Accusystems - Bank Audit Preparation <http://www.accusystem.com> 24 Aline <http://www.align-alytics.com>

□ [55.](#) Internal Audit Framework 55 # Software name Website 25 Infor Approva Continuous Monitoring <http://www.infor.com> 26 Bulldog Tax Audit - Bulldog Tax Audit <http://www.bulldogtaxaudit.com> 27 CCH - CCH TeamMate <http://www.cchgroup.com> 28 CMO Compliance <http://www.cmo-compliance.com> 29 Compliant <http://www.compliant.com> 30 ComplianceAnalyzer <http://www.complianceease.com> 31 Cornerstone OnDemand - Cornerstone Compliance Management Software <http://www.cornerstoneondemand.com> 32 Dakota Software - Dakota Auditor <http://www.dakotasoft.com> 33 Datawatch - Monarch Professional <http://www.datawatch.com> 34 Enterprise Auditor <http://www.ecora.com/Ecora> 35 AuditXL <http://www.solutionsforbusinessmanagement.com> 36 EZ-R Stats - Audit Commander <http://www.ezrstats.com> 37 UMT Audit Software <http://www.laubrass.com>

□ [56.](#) ABBREVIATIONS Internal Audit Framework 56 # Abbreviation Description 1 AGM Annual General Meeting 2 I/A Internal Audit 3 CAE Chief Audit Executive 4 CEO Chief Executive Officer 5 Deptt. Department 6 E/A External Audit 7 EGM Extraordinary General Meeting 8 IIA Institute of Internal Auditors, USA 9 IPPF International Professional Practices Framework 10 ISPPA International Standards for the Professional Practice of Internal Auditing (the standards) 11 PAs Practice Advisories 12 PPs Position Papers 13 PGs Practice Guides.

Internal audit Working dynamics

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.^[1] Internal auditing is a catalyst for improving an organization's governance, risk management and management controls by providing insight and recommendations based on analyses and assessments of data and business [processes](#).^[2] With commitment to [integrity](#) and [accountability](#), internal auditing provides value to [governing bodies](#) and [senior management](#) as an objective source of independent advice. Professionals called internal [auditors](#) are employed by organizations to perform the internal auditing activity.



The scope of internal auditing within an organization is broad and may involve topics such as an organization's governance, risk management and management controls over: efficiency/effectiveness of operations (including safeguarding of assets), the reliability of financial and management reporting, and [compliance](#) with laws and regulations. Internal auditing may also involve conducting proactive fraud audits to identify potentially fraudulent acts; participating in fraud investigations under the direction of fraud investigation professionals, and conducting post investigation fraud audits to identify control breakdowns and establish financial loss.

Internal auditors are not responsible for the execution of company activities; they [advise](#) management and the [Board of Directors](#) (or similar [oversight](#) body) regarding how to better execute their [responsibilities](#). As a result of their broad scope of involvement, internal auditors may have a variety of higher educational and professional backgrounds.

The Institute of Internal Auditors ([IIA](#)) is the recognized international standard setting body for the internal audit profession and awards the Certified Internal Auditor designation internationally through rigorous written examination. Other designations are available in certain countries.^[5] In the United States the professional standards of the Institute of Internal Auditors have been codified in several states' statutes pertaining to the practice of internal auditing in government (New York State, Texas, and Florida being three examples). There are also a number of other international standard setting bodies.

Internal auditors work for government agencies (federal, state and local); for publicly traded companies; and for non-profit companies across all industries. Internal auditing departments are led by a [Chief Audit Executive](#) ("CAE") who generally reports to the [Audit Committee](#) of the [Board of Directors](#), with administrative reporting to the [Chief Executive Officer](#) (In the United States this reporting relationship is required by law for publicly traded companies).

History of internal auditing

The Internal Auditing profession evolved steadily with the progress of [management science](#) after World War II. It is conceptually similar in many ways to [financial auditing](#) by [public accounting](#) firms, [quality assurance](#) and banking compliance activities. While some of the audit technique underlying internal auditing is derived from [management consulting](#) and public accounting professions, the theory of

internal auditing was conceived primarily by Lawrence Sawyer (1911-2002), often referred to as "the father of modern internal auditing";^[6] and the current philosophy, theory and practice of modern internal auditing as defined by the International Professional Practices Framework (IPPF) of the Institute of Internal Auditors owes much to Sawyer's vision.

With the implementation in the United States of the [Sarbanes-Oxley Act](#) of 2002, the profession's exposure and value was enhanced, as many internal auditors possessed the skills required to help companies meet the requirements of the law. However, the focus by internal audit departments of publicly traded companies on SOX related financial policy and procedures derailed progress made by the profession in the late 20th century toward Larry Sawyer's vision for internal audit. Beginning in about 2010, the IIA once again began advocating for the broader role internal auditing should play in the corporate arena, in keeping with the IPPF's philosophy.^[7]

Organizational independence

While internal auditors are not independent of the companies that employ them, independence and objectivity are a cornerstone of the IIA professional standards; and are discussed at length in the standards and the supporting practice guides and practice advisories. Professional internal auditors are mandated by the IIA standards to be independent of the business activities they audit. This independence and objectivity are achieved through the organizational placement and reporting lines of the internal audit department. Internal auditors of publicly traded companies in the United States are required to report functionally to the board of directors directly, or a sub-committee of the board of directors (typically the audit committee), and not to management except for administrative purposes.

The required [organizational independence](#) from [management](#) enables unrestricted [evaluation](#) of management activities and personnel and allows internal [auditors](#) to perform their role effectively. Although internal auditors are part of company management and paid by the company, the primary customer of internal [audit](#) activity is the entity charged with [oversight](#) of management's activities. This is typically the [Audit Committee](#), a sub-committee of the [Board of Directors](#). Organizational independence is effectively achieved when the chief audit executive reports functionally to the board. Examples of functional reporting



to the board involve the board.^[8] Approving the internal audit charter; Approving the risk based internal audit plan; Approving the internal audit budget and resource plan; Receiving communications from the chief audit executive on the internal audit activity's performance relative to its plan and other matters; Approving decisions regarding the appointment and removal of the chief audit executive; Approving the remuneration of the chief audit executive; and Making appropriate inquiries of management and the chief audit executive to determine whether there are inappropriate scope or resource limitations.

Role in internal control

Internal auditing activity is primarily directed at evaluating [internal control](#). Under the [COSO](#) Framework, internal control is broadly defined as a process, effected by an entity's board of directors, management, and other personnel, designed to provide reasonable assurance regarding the achievement of the following core objectives for which all businesses strive:

- Effectiveness and efficiency of operations.
- Reliability of financial and management reporting.
- Compliance with laws and regulations.
- Safeguarding of Assets

Management is responsible for internal control, which comprises five critical components: the control environment; risk assessment; risk focused control activities; information and communication; and monitoring activities. Managers establish policies, processes, and practices in these five components of management control to help the organization achieve the four specific objectives listed above. Internal auditors perform audits to evaluate whether the five components of management control are present and operating effectively, and if not, provide recommendations for improvement.

In the [United States](#), internal auditors may assist management with compliance with the [Sarbanes-Oxley Act](#) (SOX).

Role in risk management

Internal auditing professional standards require the function to evaluate the effectiveness of the organization's [Risk management](#) activities. Risk management is the process by which an organization identifies, analyzes, responds, gathers

information about, and monitors strategic risks that could actually or potentially impact the organization's ability to achieve its mission and objectives.

Under the [COSO](#) enterprise risk management (ERM) Framework, an organization's strategy, operations, reporting, and compliance objectives all have associated strategic business risks - the negative outcomes resulting from internal and external events that inhibit the organization's ability to achieve its objectives. Management assesses risk as part of the ordinary course of business activities such as strategic planning, marketing planning, capital planning, budgeting, hedging, incentive payout structure, credit/lending practices, mergers and acquisitions, strategic partnerships, legislative changes, conducting business abroad, etc. [Sarbanes-Oxley](#) regulations require extensive risk assessment of financial reporting processes. Corporate legal counsel often prepares comprehensive assessments of the current and potential litigation a company faces. Internal auditors may evaluate each of these activities, or focus on the overarching process used to manage risks entity-wide. For example, internal auditors can advise management regarding the reporting of forward-looking operating measures to the Board, to help identify emerging risks; or internal auditors can evaluate and report on whether the board and other stakeholders can have reasonable assurance the organization's management team has implemented an effective enterprise risk management program.

In larger organizations, major strategic initiatives are implemented to achieve objectives and drive changes. As a member of senior management, the Chief Audit Executive (CAE) may participate in status updates on these major initiatives. This places the CAE in the position to report on many of the major risks the organization faces to the Audit Committee, or ensure management's reporting is effective for that purpose.

The internal audit function may help the organization address its risk of [fraud](#) via a fraud risk assessment, using principles of [fraud deterrence](#). Internal auditors may help companies establish and maintain [Enterprise Risk Management](#) processes.^[9] This process is highly valued by many businesses for establishing and implementing effective management systems and ensuring quality is maintained & professional standards are met^[10] Internal auditors also play an important role in helping companies execute a [SOX 404 top-down risk assessment](#). In these latter



two areas, internal auditors typically are part of the risk assessment team in an advisory role.

Role in corporate governance

Internal auditing activity as it relates to [corporate governance](#) has in the past been generally informal, accomplished primarily through participation in meetings and discussions with members of the Board of Directors. According to COSO's ERM framework, governance is the policies, processes and structures used by the organization's leadership to direct activities, achieve objectives, and protect the interests of diverse stakeholder groups in a manner consistent with ethical standards. The internal auditor is often considered one of the "four pillars" of corporate governance, the other pillars being the Board of Directors, management, and the external auditor.^[11]

A primary focus area of internal auditing as it relates to corporate governance is helping the Audit Committee of the Board of Directors (or equivalent) perform its responsibilities effectively. This may include reporting critical management control issues, suggesting questions or topics for the Audit Committee's meeting agendas, and coordinating with the external auditor and management to ensure the Committee receives effective information. In recent years, the IIA has advocated more formal evaluation of Corporate governance, particularly in the areas of board oversight of enterprise risk, corporate ethics, and fraud.

Audit project selection or "annual planning"

Based on the [risk assessment](#) of the organization, internal auditors, management and oversight Boards determine where to focus internal auditing efforts. This focus or prioritization is part of the annual/multi-year [Audit Planning](#). The [audit plan](#) is typically proposed by the CAE (sometimes with several options or alternatives) for the review and approval of the Audit Committee or Board of Directors. Internal auditing activity is generally conducted as one or more discrete assignments.^{internal}

Internal audit execution

A typical internal audit assignment^[12] involves the following steps:

1. Establish and communicate the scope and objectives for the audit to appropriate management.

2. Develop an understanding of the business area under review. This includes objectives, measurements, and key transaction types. This involves review of documents and interviews. Flowcharts and narratives may be created if necessary.
3. Describe the key risks facing the business activities within the scope of the audit.
4. Identify management practices in the five components of control used to ensure each key risk is properly controlled and monitored. Internal Audit Checklist^[13] can be a helpful tool to identify common risks and desired controls in the specific process or industry being audited.
5. Develop and execute a risk-based sampling and testing approach to determine whether the most important management controls are operating as intended.
6. Report issues and challenges identified and negotiate action plans with management to address the problems.
7. Follow-up on reported findings at appropriate intervals. Internal audit departments maintain a follow-up database for this purpose.

Audit assignment length varies based on the complexity of the activity being audited and Internal Audit resources available. Many of the above steps are iterative and may not all occur in the sequence indicated.

In addition to assessing business processes, specialists called Information Technology (IT) Auditors review [Information technology controls](#).

Internal audit reports

Internal auditors typically issue reports at the end of each audit that summarize their findings, recommendations, and any responses or action plans from management. An audit report may have an executive summary; a body that includes the specific issues or findings identified and related recommendations or action plans; and appendix information such as detailed graphs and charts or process information. Each audit finding within the body of the report may contain five elements, sometimes called the "5 C's":

1. Condition: What is the particular problem identified?



2. Criteria: What is the standard that was not met? The standard may be a company policy or other benchmark.
3. Cause: Why did the problem occur?
4. Consequence: What is the risk/negative outcome (or opportunity foregone) because of the finding?
5. Corrective action: What should management do about the finding? What have they agreed to do and by when?

The recommendations in an internal audit report are designed to help the organization achieve effective and efficient governance, risk and control processes associated with operations objectives, financial and management reporting objectives; and legal/regulatory compliance objectives.

Audit findings and recommendations may also relate to particular assertions about transactions, such as whether the transactions audited were valid or authorized, completely processed, accurately valued, processed in the correct time period, and properly disclosed in financial or operational reporting, among other elements.

Under the IIA standards, a critical component of the audit process is the preparation of a balanced report that provides executives and the board with the opportunity to evaluate and weigh the issues being reported in the proper context and perspective. In providing perspective, analysis and workable recommendations for business improvements in critical areas, auditors help the organization meet its objectives.

Quality of Internal Audit Report^[14]

- **Objectivity** - The comments and opinions expressed in the Report should be objective and unbiased.
- **Clarity** - The language used should be simple and straightforward.
- **Accuracy** - The information contained in the report should be accurate.
- **Brevity** - The report should be concise.
- **Timeliness** - The report should be released promptly immediately after the audit is concluded, within a month.

Strategy

Internal audit functions may also develop functional [strategies](#) described in multi-year strategic plans. Professional guidance on building an Internal Audit strategic plan was issued by the Institute of Internal Auditors in July 2012 via a Practice Guide called Developing the Internal Audit Strategic Plan.^[15] A key aspect of developing IA strategy is understanding the expectations of stakeholders, such as the Audit Committee and top management. This helps guide the IA function in its mission of helping the organization address the risks it faces. Specific topics considered in IA strategic planning include:

- **Scope and emphasis:** An IA function may be involved in addressing risks related to financial reporting, operations, legal and regulatory compliance, and the company strategy. There may also be special topics of interest to stakeholders that change considerably year-to-year.
- **Portfolio of services:** IA functions may provide traditional audit assurance across the risk spectrum as well as consulting project support in a variety of areas such as project management, data analysis, and monitoring of major company initiatives. Larger audit functions may establish specialty areas to handle their service portfolio.
- **Competency development:** The stakeholder expectations around scope and service portfolio determine what competencies the function needs, which drives decisions regarding hiring of specific skills and training programs. The internal audit function is often used as a "management training ground" to provide employees with a deeper knowledge of the company's operations before they are rotated into a management position.^[16]
- **Technology:** IA functions use a variety of technology tools/software to support audit process workflow, statistical analysis, and obtaining data from systems.

Building the IA strategy may involve a variety of [strategic management](#) concepts and frameworks, such as [strategic planning](#), [strategic thinking](#), and [SWOT analysis](#).^[15]

Other topics

Measuring the internal audit function



The measurement of the internal audit function can involve a [balanced scorecard](#) approach.^[17] Internal audit functions are primarily evaluated based on the quality of counsel and information provided to the Audit Committee and top management. However, this is primarily qualitative and therefore difficult to measure. "Customer surveys" sent to key managers after each audit engagement or report can be used to measure performance, with an annual survey to the Audit Committee. Scoring on dimensions such as professionalism, quality of counsel, timeliness of work product, utility of meetings, and quality of status updates are typical with such surveys. Understanding the expectations of senior management and the audit committee represent important steps in developing a performance measurement process, as well as how such measures help align the audit function with organizational priorities.^{[18][19]} Independent peer reviews are part of the quality assurance process for many internal audit groups as they are often required by standards.^[20] The resulting peer review report is made available to the Audit Committee.

Reporting of critical findings

The [Chief Audit Executive](#) (CAE) typically reports the most critical issues to the [Audit Committee](#) quarterly, along with management's progress towards resolving them. Critical issues typically have a reasonable likelihood of causing substantial financial or reputational damage to the company. For particularly complex issues, the responsible manager may participate in the discussion. Such reporting is critical to ensure the function is respected, that the proper "[tone at the top](#)" exists in the organization, and to expedite resolution of such issues. It is a matter of considerable judgment to select appropriate issues for the Audit Committee's attention and to describe them in the proper context.

AUDIT PHILOSOPHY

Some of the philosophy and approach of internal auditing is derived from the work of Lawrence Sawyer. His philosophy and guidance on the role of internal audit was a forerunner of the current definition of internal auditing. It emphasized assisting management and the Board in achieving the organization's objectives through well-reasoned audits, evaluations, and analyses of operational areas. He encouraged the modern internal auditor to act as a counselor to management rather than as an adversary. Sawyer saw auditors as active players influencing events in the business rather than criticizing all degrees of errors and mistakes. He

also foresaw a more desirable auditor future involving a stronger relationship with members of Audit Committee and the Board and a divorce from direct reporting to the Chief Financial Officer.^[21]

Sawyer often talked about "catching a manager doing something right" and providing recognition and positive reinforcement. Writing about positive observations in audit reports was rarely done until Sawyer started talking about the idea. He understood and forecast the benefits of providing more balanced reporting while simultaneously building better relationships. Sawyer understood the psychology of interpersonal dynamics and the need for all people to receive acknowledgment and validation for relationships to prosper.^[21]

Sawyer helped make internal auditing more relevant and more interesting through a sharp focus on operational or performance auditing. He strongly encouraged looking beyond financial statements and financial-related auditing into areas such as purchasing, warehousing and distribution, human resources, information technology, facilities management, customer service, field operations, and program management. This approach helped catapult the chief audit executive into the role of a respected and knowledgeable adviser who was thought to be reasonable, objective, and concerned about helping the organization achieve the stated goals

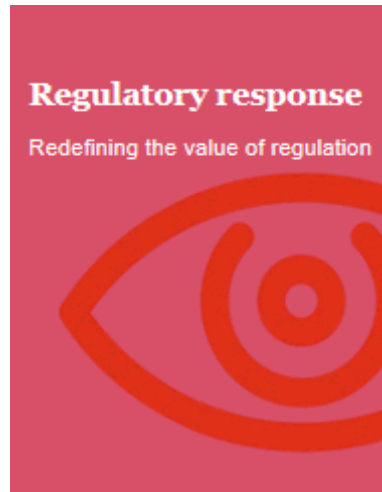
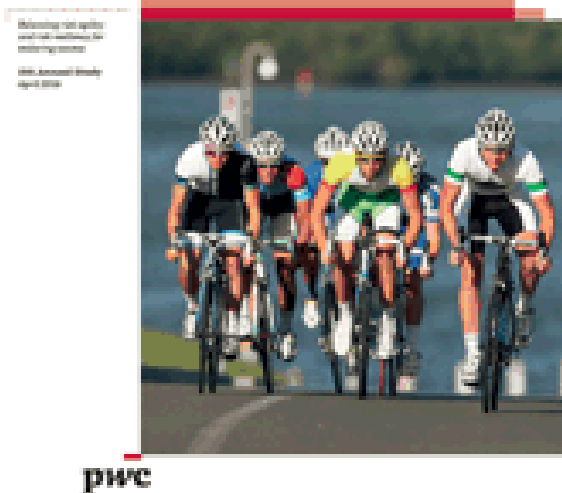
INTERNAL AUDIT RISK.

In an expanding risk landscape Internal Audit has emerged as a critical lever for change. Now, more than ever, it needs to rise to the challenge and demonstrate its value. At PwC, we are driving Internal Audit innovation merging the skills of our people with a robust, leading edge Internal Audit approach and state-of-the-art technology. The result is The PwC Internal Audit. Relevant, aligned and agile, it delivers insight and quality in equal measure and to the highest standard, helping you build the confidence to move faster and act decisively.

We tailor our solutions to match the individual business needs of our clients. We help you look deeper and see further considering areas like your organisation's culture and behaviours to help you improve and embed control. In short, we make sure every hour we spend working with you is impactful, addresses the right risks and seeks to add maximum value to your organisation.



Risk in review Going the distance



Regulatory Response – Redefining the value of regulation

Freedom from scrutiny It may seem like a paradox, but if you sort it out and do it well, a good regulatory response buys you a lot of freedom, allowing you to invest in your business with less scrutiny. Being seen as a regulatory high performer is a great way to be viewed by your regulator.

Regulatory engagement It's easy for you to feel overwhelmed by the sheer volume and complexity of regulation. This is made worse by an environment that can be multiregulator and multi-jurisdiction, where non-compliance varies in impact and the regulatory landscape is constantly evolving.

Navigating complexity Faced with this deluge of regulation, how do you stay on top of it? Interpreting regulation and finding the right balance between responding to it and delivering 'business as usual' can be a struggle. You need to find a way to navigate regulation.

Regulatory good citizenship Leading organisations that are regarded as 'regulatory good citizens' are those that embrace regulation, recognising that it drives resilience, good practice, control, competition, governance and performance. It's important to ensure that regulatory good citizenship underpins your broader business goals.

Risks in Review 2016

Risk resiliency + risk agility = enduring success

We live in turbulent times. Companies across industries have faced an unprecedented confluence of risks. It's no wonder that in PwC's 19th Annual Global CEO study, 66% of CEOs saw more threats to their business than opportunities. To remain competitive, companies must pursue two parallel strategies:

This connection between risk resiliency and risk agility is at the heart of this year's Risk in Review: Going the distance study. As our study shows, today's most forward-looking companies have both the solid infrastructure and processes to help them weather any storm, as well as the flexibility to move quickly to meet new opportunities.



Future-proofing your business - A framework for thinking differently about your risks

Introducing our framework for risk, control and assurance

The world of risk is changing. Challenging economic times, volatile world events and fast-changing technology are leaving organisations more vulnerable than ever. It's much harder to predict where new risks will come from. But, businesses are adapting and so have we, supporting you in future-proofing your business to become risk resilient and risk ready.

Many organisations have elements of governance, risk and compliance (GRC) processes in place to manage risk. But, they are often not as robust as they need to be or they are more focused on yesterday's risks rather than being forward looking. We're taking a broader perspective based on the view that boards need to start taking a holistic approach to risk, moving from being reactive and compliance-driven to being proactive, seeing it as a strategic driver of performance.

ACCOUNTABILITY

In ethics and governance, accountability is answerability, blameworthiness, liability, and the expectation of account-giving. As an aspect of governance, it has been central to discussions related to problems in the public sector, nonprofit and private (corporate) and individual contexts. In leadership roles, accountability is the acknowledgment and assumption of responsibility for actions, products, decisions, and policies including the administration, governance, and implementation within the scope of the role

or employment position and encompassing the obligation to report, explain and be answerable for resulting consequences.

In governance, accountability has expanded beyond the basic definition of "being called to account for one's actions". It is frequently described as an account-giving relationship between individuals, e.g. "A is accountable to B when A is obliged to inform B about A's (past or future) actions and decisions, to justify them, and to suffer punishment in the case of eventual misconduct". Accountability cannot exist without proper accounting practices; in other words, an absence of accounting means an absence of accountability.

Accountability is an element of a RACI to indicate who (or group) is ultimately answerable for the correct and thorough completion of the deliverable or task, and the one who delegates the work to those responsible.

There are various reasons (legitimate or excuses) why accountability fails.

HISTORY AND ETYMOLOGY

"Accountability" stems from late Latin accomptare (to account), a prefixed form of computare (to calculate), which in turn derived from putare (to reckon). While the word itself does not appear in English until its use in 13th century Norman England, the concept of account-giving has ancient roots in record keeping activities related to governance and money-lending systems that first developed in Ancient Egypt, Israel, Babylon, Greece, and later, Rome.

TYPES

Bruce Stone, O.P. Dwivedi, and Joseph G. Jabbra list 8 types of accountability, namely: moral, administrative, political, managerial, market, legal/judicial, constituency relation, and professional. Leadership accountability cross cuts many of these distinctions.

POLITICAL



Political accountability is the accountability of the [government](#), [civil servants](#) and [politicians](#) to the public and to legislative bodies such as a [congress](#) or a [parliament](#).

[Recall elections](#) can be used to revoke the office of an elected official. Generally, however, voters do not have any direct way of holding elected representatives to account during the [term](#) for which they have been elected. Additionally, some officials and legislators may be appointed rather than elected. [Constitution](#), or [statute](#), can empower a [legislative body](#) to hold their own members, the government, and government bodies to account. This can be through holding an internal or independent [inquiry](#). Inquiries are usually held in response to an allegation of misconduct or corruption. The powers, procedures and sanctions vary from country to country. The legislature may have the power to [impeach](#) the individual, remove them, or suspend them from office for a period of time. The accused person might also decide to [resign](#) before trial. [Impeachment in the United States](#) has been used both for elected representatives and other civil offices, such as [district court judges](#).

In parliamentary systems, the government relies on the support or parliament, which gives parliament power to hold the government to account. For example, some parliaments can pass a [vote of no confidence](#) in the government.

Researchers at the [Overseas Development Institute](#) found that empowering citizens in developing countries to be able to hold their domestic governments to account was incredibly complex in practice. However, by developing explicit processes that generate change from individuals, groups or communities ([Theories of Change](#)), and by fusing political economy analysis and [outcome mapping](#) tools, the complex state-citizen dynamics can be better understood. As such, more effective ways to achieve outcomes can hence be generated.^[16]

Researchers at the International Budget Partnership (IBP) found that civil society organizations play an important role in achieving accountability outcomes. The IBP case studies showed that CSOs can have an impact in a broad array of political and economic contexts. The researchers concluded that CSOs are most effective when they draw in a broad web of actors from across the accountability system, including the media, auditors, donors, the legislature, executive insiders, and political parties.^[17]

Within an organization, the principles and practices of ethical accountability aim to improve both the internal standard of individual and group conduct as well as external factors, such as sustainable economic and ecologic strategies. Also, ethical accountability plays a progressively important role in academic fields, such as laboratory experiments and field research. Debates around the practice of ethical accountability on the part of researchers in the social field – whether professional or others – have been thoroughly explored by Norma R.A. Romm in her work on Accountability in Social Research,^[18] including her book on New Racism: Revisiting Researcher Accountabilities, reviewed by Carole Truman in the journal Sociological Research Online.^[19] Here it is suggested that researcher accountability implies that researchers are cognisant of, and take some responsibility for, the potential impact of their ways of doing research – and of writing it up – on the social fields of which the research is part. That is, accountability is linked to considering carefully, and being open to challenge in relation to, one's choices concerning how research agendas are framed and the styles in which write-ups of research "results" are created.

ADMINISTRATIVE

Internal rules and norms as well as some independent commission are mechanisms to hold civil servants within the administration of government accountable. Within department or ministry, firstly, behavior is bound by rules and regulations; secondly, civil servants are subordinates in a hierarchy and accountable to superiors. Nonetheless, there are independent "watchdog" units to scrutinize and hold departments accountable; legitimacy of these commissions is built upon their independence, as it avoids any conflicts of interests. The accountability is defined as "an element which is part of a unique responsibility and which represents an obligation of an actor to achieve the goal, or to perform the procedure of a task, and the justification that it is done to someone else, under threat of sanction".^[20]

INDIVIDUALS WITHIN ORGANIZATIONS

Because many different individuals in large organizations contribute in many ways to the decisions and policies, it is difficult even in principle to identify who should be accountable for the results. This is what is known, following Thompson, as the problem of many hands.^[21] It creates a dilemma for accountability. If individuals are held



accountable or responsible, individuals who could not have prevented the results are either unfairly punished, or they "take responsibility" in a symbolic ritual without suffering any consequences. If only organizations are held accountable, then all individuals in the organization are equally blameworthy or all are excused. Various solutions have been proposed. One is to broaden the criteria for individual responsibility so that individuals are held accountable for not anticipating failures in the organization. Another solution, recently proposed by Thompson, is to hold individuals accountable for the design of the organization, both retrospectively and prospectively.^[221]

CONSTITUENCY RELATIONS

Within this perspective, a particular agency of the government is accountable if voices are heard from agencies, groups or institutions outside the public sector representing citizens' interests from a particular constituency or field. Moreover, the government is obliged to empower members of agencies with political rights to run for elections and be elected; or, appoint them into the public sector as a way to make the government representative and to ensure that voices from all constituencies are included in policy-making.

PUBLIC/PRIVATE OVERLAP

With the increase over the last several decades in public service provided by private entities, especially in Britain and the United States, some have called for increased political accountability mechanisms for otherwise non-political entities. Legal scholar Anne Davies, for instance, argues that the line between public institutions and private entities like corporations is becoming blurred in certain areas of public service in the United Kingdom, and that this can compromise political accountability in those areas. She and others argue that some administrative law reform is necessary to address this accountability gap.^[231]

With respect to the public/private overlap in the United States, public concern over the contracting of government services (including military) and the resulting accountability gap has been highlighted recently following the shooting incident involving the Blackwater security firm in Iraq.^[241]

CONTEMPORARY STUDIES

Accountability involves either the expectation or assumption of account-giving behavior. The study of account giving as a sociological act was articulated in a 1968 article on "Accounts" by Marvin Scott and Stanford Lyman,^[251] although it can be traced as well to J. L. Austin's 1956 essay "A Plea for Excuses",^[261] in which he used excuse-making as an example of [speech acts](#).

Communications scholars have extended this work through the examination of strategic uses of excuses, justifications, rationalizations, apologies and other forms of account giving behavior by individuals and corporations, and Philip Tetlock and his colleagues have applied experimental design techniques to explore how individuals behave under various scenarios and situations that demand accountability.

Recently, accountability has become an important topic in the discussion about the legitimacy of international institutions.^[271] Because there is no global democratically elected body to which organizations must account, global organizations from all sectors bodies are often criticized as having large accountability gaps. The Charter 99 for Global Democracy,^[281] spearheaded by the [One World Trust](#), first proposed that cross-sector principles of accountability be researched and observed by institutions that affect people, independent of their legal status. One paradigmatic problem arising in the global context is that of institutions such as the [World Bank](#) and the [International Monetary Fund](#) who are founded and supported by wealthy nations or individuals and provide grants and loans, to developing nations. Should those institutions be accountable to their founders and investors or to the persons and nations they lend money to? In the debate over [global justice](#) and its distributional consequences, Cosmopolitans tend to advocate greater accountability to the disregarded interests of traditionally marginalized populations and developing nations. On the other hand, those in the [Nationalism](#) and Society of States traditions deny the tenets of [moral universalism](#) and argue that beneficiaries of global development initiatives have no substantive entitlement to call international institutions to account. The [One World Trust](#) Global Accountability Report, published in a first full cycle 2006 to 2008,^[291] is one attempt to measure the capability of global organizations to be accountable to their stakeholders.

ACCOUNTABILITY IN EDUCATION



Student accountability is traditionally based on having school and classroom rules, combined with sanctions for infringement.

In contrast, some educational establishments such as [Sudbury schools](#) believe that students are personally responsible for their acts, and that traditional schools do not permit students to choose their course of action fully; they do not permit students to embark on the course, once chosen; and they do not permit students to suffer the consequences of the course, once taken. Freedom of choice, freedom of action, freedom to bear the results of action are considered the three great freedoms that constitute personal responsibility. Sudbury schools claim that "'[Ethics](#)' is a course taught by life experience". They adduce that the essential ingredient for acquiring values—and for moral action is personal responsibility, that schools will become involved in the teaching of morals when they become communities of people who fully respect each other's right to make choices, and that the only way the schools can become meaningful purveyors of ethical values is if they provide students and adults with real-life experiences that are bearers of moral import. Students are given complete responsibility for their own education and the school is run by a [direct democracy](#) in which students and staff are equals.

MEDIA AND ACCOUNTABILITY

[Econometric research has found that countries with greater press freedom tend to have less corruption.](#)^[36] Greater political accountability and lower corruption were more likely where newspaper consumption was higher in data from roughly 100 countries and from different states in the US.^[37] A "poor fit between newspaper markets and political districts reduces press coverage of politics. ... Congressmen who are less covered by the local press work less for their constituencies: they are less likely to stand witness before congressional hearings Federal spending is lower in areas where there is less press coverage of the local members of congress."^[38] This was supported by an analysis of the consequences of the closure of the Cincinnati Post in 2007. The following year, "fewer candidates ran for municipal office in the Kentucky suburbs most reliant on the Post, incumbents became more likely to win reelection, and voter turnout and campaign spending fell."^[39]

An analysis of the evolution of mass media in the US and Europe since World War II noted mixed results from the growth of the Internet: "The digital revolution has been

good for freedom of expression [and] information [but] has had mixed effects on freedom of the press": It has disrupted traditional sources of funding, and new forms of Internet journalism have replaced only a tiny fraction of what's been lost.^[40] [Various systems have been proposed for increasing the funds available for investigative journalism](#) that allow individual citizens to direct small amounts of government funds to news outlets or investigative journalism projects of their choice.

To train people to conduct these kinds of investigations, [Charles Lewis](#) has proposed "the creation of a new multidisciplinary academic field called Accountability Studies. ... [S]tudents from widely different academic backgrounds are excited about the prospect of learning exactly how to investigate those in power and hold them accountable."^[41]

STANDARDS

Accountability standards have been set up, and organizations can voluntarily commit to them. Standards apply in particular to the non-profit world and to [Corporate Social Responsibility](#) (CSR) initiatives. Accountability standards include:

- [INGO Accountability Charter](#), signed by a large number of [NGOs](#) to "demonstrate their commitment to accountability and transparency"^[42]
- [AccountAbility's AA1000 series](#). "principles-based standards to help organisations become more accountable, responsible and sustainable. They address issues affecting governance, business models and organizational strategy, as well as providing operational guidance on sustainability assurance and stakeholder engagement"^[43]
- [Humanitarian Accountability Partnership \(HAP\)](#) 2010 standards. A standard for humanitarian organizations to help them "design, implement, assess, improve and recognise accountable programmes"^[44]

In addition, some non-profit organizations set up their own commitments to accountability:

- Accountability, Learning and Planning System (ALPS) by [ActionAid](#), a framework that sets out



the key accountability requirements, guidelines, and processes.^[45]

THE PUBLIC SECTOR AND ACCOUNTABILITY

1. Transparency and accountability need each other and can be mutually reinforcing. Together they enable citizens to have a say about issues that matter to them and a chance to influence decision-making and hold those making decisions to account.

Each concept is part of a strategy used for and by citizens to have the means, resources and opportunities to influence decision-making and affect development outcomes.

Below are definitions of the two terms as agreed by the Transparency and Accountability Initiative.

What is transparency?

As a principle, public officials, civil servants, managers and directors of companies and organisations and board trustees have a duty to act visibly, predictably and understandably to promote participation and accountability.

Simply making information available is not sufficient to achieve transparency. Large amounts of raw information in the public domain may breed opacity rather than transparency.

Information should be managed and published so that it is:

- **Relevant and accessible:** Information should be presented in plain and readily comprehensible language and formats appropriate for different stakeholders. It should retain the detail and disaggregation necessary for analysis, evaluation and participation. Information should be made available in ways appropriate to different audiences.
- **Timely and accurate:** Information should be made available in sufficient time to permit analysis, evaluation and engagement by relevant stakeholders. This means that information needs to be provided while planning as well as during and after the implementation of policies and programmes. Information should be managed so that it is up-to-date, accurate, and complete.

What is accountability?

Accountability means ensuring that officials in public, private and voluntary sector organisations are answerable for their actions and that there is redress when duties and commitments are not met.

The below is taken from a DFID practice paper and discussion note:

Accountability is an **institutionalised** (i.e. regular, established, accepted) **relationship** between different actors. One set of people/organisations are held to account ('accountees'), and another set do the holding ('accounters').

There are many ways in which people and organisations might be held to account. It is useful to think of an accountability relationship as having up to four stages:

- **Standard setting:** setting out the behaviour expected of the 'accountee' and the criteria by which they might validly be judged.
- **Investigation:** exploring whether or not accountees have met the standards expected of them.
- **Answerability:** a process in which accountees are required to defend their actions, face sceptical questions, and generally explain themselves. This applies both to negative or critical as well as to positive feedback.
- **Sanction:** a process in which accountees are in some way punished for falling below the standards expected of them (or perhaps rewarded for achieving or exceeding them).

Expressed like this, the accountability process sounds very formal and like a legal trial, but most accountability sequences are not as formal, and/or do not include all these stages.

Jonathan Fox provides a useful definition of '**accountability politics**' as '**the arena of conflict over whether and how those in power are held publicly responsible for their decisions**'. This helps to highlight that accountability is not only a set of institutional mechanisms or a checklist of procedures, but an arena of challenge, contestation and transformation.



Accountability can usefully be categorised in terms of horizontal, vertical

and diagonal mechanisms, with the condition however, that success is most often found not in one of those approaches alone, but in their interaction.

- **Horizontal accountability** consists of formal relationships within the state itself, whereby one state actor has the formal authority to demand explanations or impose penalties on another. Its focus is on internal checks and oversight processes. For example, executive agencies must explain their decisions to legislatures, and can in some cases be overruled or sanctioned for procedural violations.
- **Vertical forms of accountability** are those in which citizens and their associations play direct roles in holding the powerful to account. Elections are the formal institutional channel of vertical accountability. But there are also informal processes through which citizens organize themselves into associations capable of lobbying governments and private service providers, demanding explanations and threatening less formal sanctions like negative publicity.
- **Diagonal accountability** operates in a domain between the vertical and horizontal dimensions. It refers to the phenomenon of direct citizen engagement with horizontal accountability institutions when provoking better oversight of state actions. Citizens by-pass cumbersome or compromised formal accountability systems to engage in policy-making, budgeting, expenditure tracking and other similar activities.

2. The Elements of Good Governance

- 2.1 The term "governance" means different things to different people. As the ethos, experience and interests of people vary, so too, do their perceptions of what constitutes good governance. Among the many definitions of "governance" that exist, the one that appears the most appropriate from ACAG's viewpoint is "the manner in which power is exercised in the management of the State's affairs".
- 2.2 Four basic elements of good governance are suggested:
 - (i) accountability (ii) participation (iii) predictability and (iv) transparency.

- 2.3 Accountability: By accountability is meant the imperative to make public officials answerable for their behaviour and responsive to the entity from which they derive their authority. Accountability also means establishing criteria to measure the performance of public officials, as well as oversight mechanisms to ensure that standards are met.
- 2.4 Participation: Participation is often related to accountability and, in representative democracies where citizens participate in government through the electoral process, public officials are accountable ultimately to the electorate. At the grass roots level, participation implies that government structures are flexible enough to offer beneficiaries, and others affected, the opportunity to improve the design and implementation of public programs and projects. At a different level, the effectiveness of policies and institutions impinging on the State as a whole may require the broad support and co-operation of the major stakeholders.
- 2.5 Predictability: Predictability refers to the (i) existence of laws, regulations and policies to regulate activities and (ii) their fair and consistent application. It requires the State and its agencies to be as much bound by, and answerable to, the legal system as are private individuals and enterprises. Predictability can be enhanced also through institutional arrangements to ensure an appropriate degree of autonomy for those agencies which ought to be insulated from political pressures.
- 2.6 Transparency: Transparency refers to the availability of information to the general public and clarity about government rules, regulations and decisions.

3. Principles of Accountability

- 3.1 THE PARTICIPANTS IN THE ACCOUNTABILITY REGIME WOULD BE IDENTIFIED AND THEIR ROLES AND INTER-RELATIONSHIPS CLEARLY DEFINED AND UNDERSTOOD.
- In the theoretical Westminster model of government, for example, public sector accountability can be thought of as a linked chain of participants each with unique accountability functions. Under the "chain of accountability" structure, the principal is the community and it is represented by members elected to the Parliament.



Thus the Parliament, not executive government and its Ministers, becomes the constitutional surrogate of the community as the principal. Responsibility is then assigned to the executive government as a trustee. Executive government, within the discretion allowed by the legislature, further assigns discretionary power and responsibility through regulation, policy and administrative arrangements to the managers of public sector agencies.

- A clear understanding by all participants of their roles and inter-relationships is an important part of this principle. It follows that the roles and inter-relationships referred to in the theoretical model described above must be clearly defined in practical terms suited to each environment. Participants can discharge their accountability functions effectively only if they know to whom they are accountable and for what. Likewise, they can hold others accountable only if they understand who is accountable to them and for what.
- There is a common presumption that those entering public life either have or soon acquire a workable understanding of such matters. The findings of numerous investigations, inquiries and Royal Commissions provide ample evidence that this is not so.
- 3.2 OBJECTIVES WOULD BE SPECIFIED FOR EACH PARTICIPANT IN THE CHAIN OF ACCOUNTABILITY BELOW THAT OF THE PRINCIPAL (THE COMMUNITY).
- Objectives are the basis for what has to be done. They determine the key activities which must be undertaken, how that should be organised and the allocation of resources to tasks.
- Objectives are a statement of expectation as to what should be achieved. Such a statement would exist for each level in the chain of accountability and is necessary in order to fully answer the question "Accountable for what?"
- Ideally the objectives would be both qualitative and quantitative and specified in a time frame.
- The specificity of the objectives would vary according to the level for which they are formulated, the general order being that at the highest level in the chain of accountability the objectives would tend to be broad and at the lowest level in the chain they would be quite specific.

- 3.3 TO EACH PARTICIPANT IN THE CHAIN OF ACCOUNTABILITY WOULD BE DELEGATED THE AUTHORITY AND RESOURCES TO ACHIEVE OBJECTIVES EFFECTIVELY AND EFFICIENTLY.
- In order to achieve the specified objectives each participant will need to be given the means, namely the necessary authority and resources.
- By "authority", is meant the right to direct and the power to exact compliance. It is essential that the delegated authority equal the responsibilities assigned.
- Likewise, those responsible for achieving objectives will be able to do so most effectively and efficiently when the necessary financial, physical and human resources are available.
- 3.4 EACH PARTICIPANT IN THE CHAIN OF ACCOUNTABILITY WOULD SPECIFY THE REPORTING REQUIREMENTS WHICH ARE TO APPLY IN RESPECT OF THE RESPONSIBILITIES, AUTHORITIES AND RESOURCES WHICH HAVE BEEN ASSIGNED OR DELEGATED BY IT.
- Information is central to effective accountability. The delegation of power and autonomy should be matched by an appropriate requirement to report and account for its use. Actual performance would be judged against the objectives which were set at the policy-formulation, interpretation and execution levels. The reporting requirements would cover such things as type of report, format, content and reporting timetable.
- 3.5 EACH PARTICIPANT WOULD HAVE THE RIGHT TO VERIFY THE INFORMATION SUPPLIED TO IT IN DISCHARGE OF A REPORTING REQUIREMENT.
- Without the right to verify the information there can be no certainty as to the reliability or credibility of the information. Under the Westminster model of government there is usually an Auditor-General or equivalent who is responsible to Parliament for verifying the financial and related information which is presented to Parliament as part of the public sector reporting requirements.
- Those levels below Parliament in the accountability chain may choose to establish alternative



verification arrangements, although in many instances they may choose to use the Auditor-General for that purpose so long as that does not conflict with the Auditor-General's independence and responsibility to Parliament.

- 3.6 EACH PARTICIPANT WOULD HAVE THE AUTHORITY AND RESPONSIBILITY TO JUDGE THE PERFORMANCE OF THOSE TO WHOM RESPONSIBILITIES, AUTHORITIES AND RESOURCES HAVE BEEN ASSIGNED OR DELEGATED AND TO IMPOSE ANY SANCTIONS - PENALTIES OR REWARDS - WHICH MAY FLOW FROM SUCH JUDGEMENT.
- Accountability cannot be said to exist in situations where judgement and sanction do not operate.
-

- The need for sanction arises because it is in the general interest that useful actions be encouraged and their opposite discouraged. Application of sanction to acts of authority forms part of the conditions essential for accountability.
- At the highest level, the community exercises its judgement of Parliamentary representatives at the periodic elections. At the Parliamentary level there are a variety of ways in which the actions of Ministers, officials and public bodies can be scrutinised. These include the Parliamentary Question Time, the committee stage in debate on bills and the committee system itself. The latter would include public accounts and expenditure review committees.

CENTRE TO PROMOTE PUBLIC SECTOR ACCOUNTABILITY LAUNCHED IN GHANA

THE CENTRE FOR PUBLIC ACCOUNTABILITY (CPA), A CREATION OF THE UNIVERSITY OF PROFESSIONAL STUDIES, ACCRA (UPSA), IS AIMED AT PROVIDING QUALITY TRAINING AND CONSULTANCY SUPPORT TO PROMOTE PUBLIC SECTOR ACCOUNTABILITY IN GHANA AND AFRICA.

SPEAKING AT THE CEREMONY, THE VICE-CHANCELLOR OF THE UPSA, PROFESSOR JOSHUA ALABI, SAID THE CENTRE WOULD POSITION THE INSTITUTION AS A LEADING UNIVERSITY IN PUBLIC ACCOUNTABILITY AND TRANSPARENCY AND ALSO PROVIDE THE NECESSARY LITERATURE AND CURRICULUM NEEDED TO ENHANCE THE CAPACITY OF PUBLIC OFFICIALS IN GHANA AND AFRICA.

MORE THINK TANKS

THE FOUNDER OF THE INSTITUTE OF ECONOMIC AFFAIRS, DR CHARLES MENSA, EXPLAINED THAT IT WAS THE DUTY OF THE CENTRE TO ASSESS GOVERNMENT POLICIES AND DECISIONS IN AN ATTEMPT TO EDUCATE THE PUBLIC.

HE ALSO MENTIONED THE NEED FOR MORE THINK TANKS IN GHANA TO EVALUATE GOVERNMENT PROGRAMMES TO ENSURE PUBLIC ACCOUNTABILITY AND TRANSPARENCY.

PUBLIC ACCOUNTABILITY

IN HIS ADDRESS, THE DIRECTOR OF THE CENTRE, MR ALBERT KAN DAPAAH, STATED THAT THE CENTRE WAS A NON-PARTISAN INSTITUTION COMMITTED TO ENSURING PUBLIC TRANSPARENCY AND ACCOUNTABILITY IN GHANA.

HE MENTIONED THAT ACCOUNTABILITY WAS ONE OF THE WEAKEST ELEMENTS OF GOVERNANCE IN GHANA AND AFRICA, ADDING THAT THE SITUATION HAD LED TO A HIGH LEVEL OF CORRUPTION IN THE PUBLIC SECTOR AND LOW PROSECUTION OF CORRUPTION CASES.



“THE CPA SEEKS TO HIGHLIGHT AND PROMOTE THIS CONCEPT OF ACCOUNTABILITY IN PUBLIC SECTOR MANAGEMENT. WE WANT TO CONDUCT CUTTING-EDGE RESEARCH INTO THE CONCEPT OF PUBLIC SECTOR ACCOUNTABILITY,” HE SAID.

TRAINING AND MONITORING

ACCORDING TO MR DAPAAH, THE CENTRE INTENDS TO BUILD THE CAPACITY OF PUBLIC SECTOR WORKERS AND LAWMAKERS THROUGH TRAINING PROGRAMMES, SAYING THAT “WE WANT TO OFFER CONSULTANCY SUPPORT TO KEY ACCOUNTABILITY INSTITUTIONS, INCLUDING THE PUBLIC ACCOUNTS COMMITTEE”.

WHILE EMPHASISING THE NEED TO SEAL LOOPHOLES IN THE ADMINISTRATION OF PUBLIC FUNDS, MR DAPAAH STATED THAT IT WAS NOT THE AMBITION OF THE CENTRE TO “CATCH THIEVES” BUT RATHER DEVELOP POLICY RECOMMENDATIONS TO SEAL LOOPHOLES IN THE ADMINISTRATION OF PUBLIC FUNDS.

AS PART OF THEIR OBJECTIVES, MR DAPAAH SAID THE CENTRE WOULD MAINTAIN AN ACCURATE AND RELIABLE DATABASE ON PUBLIC TRANSACTIONS SUCH AS PUBLIC DEBT, PETROLEUM REVENUE AND EXPENDITURE AND DONOR FUNDS.

THE CENTRE WOULD MONITOR AND TRACK THE IMPLEMENTATION OF AUDIT FINDINGS AND PROVIDE POLICY OPTIONS FOR AN EFFECTIVE SANCTION REGIME, HE REVEALED.

HE WAS, HOWEVER OPTIMISTIC THAT THE HIGHLY QUALIFIED AND SKILLED STAFF OF THE UNIVERSITY WOULD PROVIDE THE NECESSARY LEADERSHIP TO ENABLE THE CENTRE TO ACHIEVE ITS OBJECTIVES.

IN HIS CLOSING REMARKS, COUNCIL CHAIRMAN OF THE UPSA, MR JUSTICE NII ARYEETEEY, ANNOUNCED THAT THE INAUGURATION OF THE CENTRE WAS THE FIRST OF THREE OTHER CENTRES OF EXCELLENCE TO BE INAUGURATED BY THE UNIVERSITY THIS YEAR, AND ADVISED PUBLIC OFFICIALS TO TAKE ADVANTAGE OF THE RESOURCES OF THE CENTRE.

CPIA TRANSPARENCY - ACCOUNTABILITY - AND CORRUPTION IN THE PUBLIC SECTOR RATING (1=LOW TO 6=HIGH) IN GHANA

CPIA TRANSPARENCY; ACCOUNTABILITY; AND CORRUPTION IN THE PUBLIC SECTOR RATING (1=LOW TO 6=HIGH) IN GHANA WAS LAST MEASURED AT 3.50 IN 2014, ACCORDING TO THE WORLD BANK. TRANSPARENCY, ACCOUNTABILITY, AND CORRUPTION IN THE PUBLIC SECTOR ASSESS THE EXTENT TO WHICH THE EXECUTIVE CAN BE HELD ACCOUNTABLE FOR ITS USE OF FUNDS AND FOR THE RESULTS OF ITS ACTIONS BY THE ELECTORATE AND BY THE LEGISLATURE AND JUDICIARY, AND THE EXTENT TO WHICH PUBLIC EMPLOYEES WITHIN THE EXECUTIVE ARE REQUIRED TO ACCOUNT FOR ADMINISTRATIVE DECISIONS, USE OF RESOURCES, AND RESULTS OBTAINED. THE THREE MAIN DIMENSIONS ASSESSED HERE ARE THE ACCOUNTABILITY OF THE EXECUTIVE TO OVERSIGHT INSTITUTIONS AND OF PUBLIC EMPLOYEES FOR THEIR PERFORMANCE, ACCESS OF CIVIL SOCIETY TO INFORMATION ON PUBLIC AFFAIRS, AND STATE CAPTURE BY NARROW VESTED INTERESTS. THIS PAGE HAS THE



LATEST RECORDED VALUE, AN HISTORICAL DATA CHART AND RELATED INDICATORS FOR CPIA TRANSPARENCY - ACCOUNTABILITY - AND CORRUPTION IN THE PUBLIC SECTOR RATING (1=LOW TO 6=HIGH) IN GHANA.

World Bank Indicators - Ghana - POLICY & INSTITUTIONS

	1990	2000	2010	2014
CPIA business regulatory environment rating (1=low to 6=high) in Ghana	4.5	4.0	[+]	
CPIA debt policy rating (1=low to 6=high) in Ghana	4.0	3.0	[+]	
CPIA economic management cluster average (1=low to 6=high) in Ghana	3.7	2.5	[+]	
CPIA policy and institutions for environmental sustainability rating (1=low to 6=high) in Ghana	3.5	4.0	[+]	
CPIA quality of budgetary and financial management rating (1=low to 6=high) in Ghana	3.5	3.0	[+]	
CPIA financial sector rating (1=low to 6=high) in Ghana	4.0	3.0	[+]	
CPIA fiscal policy rating (1=low to 6=high) in Ghana	3.5	2.5	[+]	
CPIA gender equality rating (1=low to 6=high) in Ghana	4.0	4.0	[+]	
CPIA building human resources rating (1=low to 6=high) in Ghana	4.5	4.0	[+]	
IDA resource allocation index (1=low to 6=high) in Ghana	3.9	3.4	[+]	

An institutional perspective on performance measurement and management in the ‘new public sector’

During the 1990s, in what has become known as the ‘new public sector’, many services in advanced economies, such as those of the U.K. and Scandinavia, have come under pressure to become more efficient and effective, so as to reduce their demands on taxpayers, while maintaining the volume and quality of services supplied to the public. To achieve this, they have been subjected to the introduction of various ‘private sector’ management techniques and the frequent adoption of some form of neo-market system in which the purchasers and providers of public services have been split and are frequently required to contract with each other. In this paper, we explore the implications of institutional theory for the successful implementation of multidimensional performance measurement and management in the public sector. In particular, broadening the two-party funders and professional service providers

framework of traditional institutional theory to include purchasers of public services allows us to analyse the likely impact of purchaser–provider splits on multidimensional performance measurement systems in the public sector. We show that the differing nature of the interrelationships between these three key stakeholders will influence the extent to which performance measurement in the focal service-provider organizations will be **BALANCED** and **INTEGRATED**. We also discuss the influence of these core concepts on the possibilities of achieving some balance between the stakeholder interests examined in the overall control of provider organizations. Five research propositions are advanced, three relating to the relationships between the focal organizations, funders and professional service providers, respectively, and two concerning the focal organization’s links with purchasers. Future empirical research in this area should take the form of longitudinal case studies to track differing paths of development and their effects through time.

Global Markets and Advanced Control Systems



The worst financial crisis since the Great Depression is characterizing the roles and the boundaries between the institutions and the markets towards a new balance between regulation coming from the market place and virtuous mechanisms promoted autonomously by organizations.

As some authors have noted, in the economic history of the last three centuries, there have been cyclic moments which because of the panic due to the unexpected crisis, the communities that gained wealth thanks to free trade are motivated in finding the cause of the crisis within the system that generated the wealth itself (Butler, 2007).

In fact, in recent years, the evolution of the economic and financial systems has faced the influence of a variety of factors: deregulation of the financial activity, technological innovation, and growing mobility of capital at the international level.

Certainly, the local peculiarities in terms of norms, cultural aspects and shared practices are relevant, although the increasing interdependences on a global scale have created, and still affect, a domino process of non-controllable effects.

Within the main world financial markets, for example, the emerging, innovative capacity in terms of new products and services have not been followed by the consequent review of the regulation for the financial organizations and the functioning mechanisms of the market.

A few authors, at this proposal, underlie the necessity to promote a new 'capitalistic ethic' and to face the anarchy of speculation: strong expressions that show the attention dedicated, especially in this historical moment, to governance and control systems of organizations and institutions that work within the capital markets.

With regard to the object of this paper and with special reference to the banking sector, it is possible to develop two levels of analysis. The first is dedicated to the policy and the functioning of the central banks, in Europe and within the rest of the world. At this stage, the Bank for International Settlements (BIS) emerges as the main responsible for the international equilibrium and the coordinator for the reform activity of the Basel Committee.

The second level of analysis concerns each bank that, independently from the central formal regulation, can implement virtuous practice and adopt internal instruments to better manage system of risks.

From this point of view, the ability of the organization emerges to understand control systems as critical success factors for the organizations that intend to achieve high visibility and competitive advantage within the international financial markets based on transparency and safety of the

economic activity, both in the management of investments than in the organization of the internal processes.

This contribution intends to bring out, in particular, the role of the central institutions in the creation of the flexibility and the necessary environment to develop control instruments oriented towards the prevention and management of risk, without analyzing in details all the operating risks that can emerge.

At this point, it is possible to define a wide framework that allows each organization to plan and adopt the practices that are considered best suited within the general process of value creation.

The affirmation of control systems as a success factor for management of the organization should promote, especially within banks, the application and the external communication of sophisticated managerial instruments able to achieve the most balanced conditions of functioning and accountability, especially in the distribution of tasks and roles.

The Banking Authorities and the Origin of Internal Control

The European banking sector is notoriously characterized by a system of formal supervision settled with specific standards for each area and level of risk. The main authorities in the control field are the European Central Bank and the central banks of the member States with specific reference to the emission and the organization of the sector regulation.

In the last decade, in particular, the Basel Committees role emerged: an international work group working to develop and the supervision processes within the banking sector coordinate on a global scale. The activity of this Committee is linked to the wider action of the Bank for International Settlements (BIRS), the oldest financial organization still active in the world for the creation of monetary and financial stability. The BIRS constitutes a coordination role for the policies of the central banks, and it represents the bank of reference for the latter as well for other international organizations in different countries worldwide.

In the Italian case, the influence of the European Institutions emerged especially at the time of the acknowledgment of the European Directive 2001/97/CE into the legislative decree 231/2001: an important norm, periodically revised, that constituted the first attempt to the attribution of administrative responsibility in case of crime for the legal person (companies and other organizations active within financial markets).



This was a challenging decree for the Italian legal system, that contributed to introducing specific crime categories that are related, in particular, to relationships of the company with the public administration, financial crimes, offences against the individual as physical person, and transnational crimes.

Besides the European policies, the same process of defining and evaluating the control system has been promoted within the United States through the activity of the SEC (Security and Exchange Commission). The first interventions of the SEC took place within the decade 1978-1988 and, afterward, in a more intensive way following the great financial scandals of 2001 (Section 404 of the Sarbanes-Oxley Act).

This contribution is dedicated, in particular, to the discussion of the content, also contained in the session of the Sarbanes Act above mentioned that is best represented in Italy by the attempt to uniform the Italian banks practices with the control standards of their international competitors. The Italian case represents, from this perspective, an interesting example for the analysis of the internal control system, as well for the dynamics of a complex competitive system that evolves towards the constitution of remarkable banking groups. It is sufficient to reflect over the dynamics that characterized the banking sector within the last years that became one of the most significant examples of the Italian organization still competitive at a global level.

More specifically, thinking about the complexity and the wide boundaries of the bank economic activity it is now clear that the internal control systems have a strategic role for the effective functioning of the governance systems. This is particularly significant considering the extreme complexity and variety of the operational processes and of the competitive arena of banks.

1 The Banking industry in Ghana

In February 2003, BoG introduced the Universal Banking Business Licence (UBBL), which is expected to bring more competition within the industry. Banks in Ghana are categorised under this licensed system: Class I Banking licence-Universal banking; Class II Banking licence-Universal and off-shore banking, General Banking - Universal and Universal and off-shore banking and ARB APEX Bank (Bank of Ghana, 2007). There are 28 major banks licensed for Universal banking business and 137 rural and community banks under the ARB Apex banking system. The NBFIs are composed of Finance Companies, Discount Houses, Mortgage Finance Companies, Leasing Companies,

and Savings and Loans Companies. All of these are regulated and supervised by the Bank of Ghana (BOG) under the Banking Act 2004 (Act 673) which strengthened the regulatory and supervisory functions of BoG (PricewaterhouseCoopers, 2012). The new universal banking classifications replaced the activity-based classification of Merchant, Commercial and Development banking that was in operation in the country and was in response to the financial reform initiative which introduced “universal banking”. Dr. Acquah (Governor of the Bank of Ghana) in a keynote address to the Fifth Banking Award Ceremony mentioned among others that universal banking was to foster the entry of new banks, liberalise the choice of banking services, increase branch network and competition for deposit at the retail level (Acquah, 2009).

2. Theory and related literature

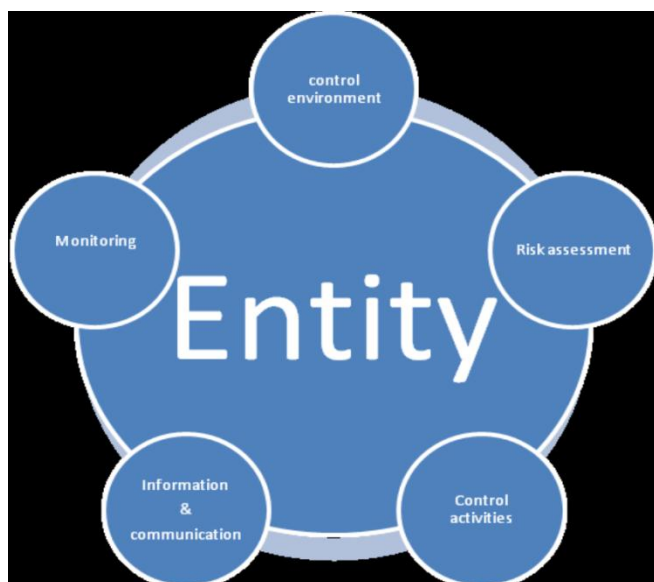
2.1 Definition of internal control system COSO in 1992, defined internal controls as a process, and rightly so because an internal control system is not an end in itself but a means to an end. Internal control is defined as a “process, effected by an entity's board of directors, management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories: Effectiveness and efficiency of operations, Reliability of financial reporting, Compliance with applicable laws and regulations” (COSO, Internal Control-Integrated Framework, 1992). Again the Basel committee on banking supervision defined internal controls “as a process effected by board of directors, senior management and all levels of personnel. It is not solely a procedure or policy that is performed at a certain point in time, but rather it is continually operating at all levels within the bank” (Basel, 1998).

2.2 Systems theory

A system is a set of interrelated and interdependent components that interact in a way to achieve a set goal. These components or sub-systems are inter-dependent and the failure of one component leads to the failure of the whole system. An organization is a complex system which is divided in various sub-systems (Units, divisions, departments, etc) and hence requires a system of controls over units, divisions, departments, etc, for its effectiveness and survival. An effective internal control system is an integrated system with interrelated components, supporting principles and attributes. Harvey and Brown (1998) identified control environment, accounting system and control procedures as the major components of internal controls (Harvey & Brown, 1998). According to Grieses, an internal control system available to a firm consists of:



management oversight and the control culture; risk recognition and assessment; control of activities and segregation of duties; information and communication and monitoring activities and correcting deficiencies (Grieves, 2000). The paper adopts COSO's 1992 integrated internal control framework. The Committee of Sponsoring Organizations' (COSO), was commissioned in the 1980's by National Commission on Fraudulent Financial Reporting (the Treadway Commission) to identify factors that caused fraudulent corporate financial reports and make recommendations, and has since developed to become a thought leader in enterprise risk management (ERM), internal control, and fraud deterrence (Amudo & Inanga, 2009). In 1992, COSO published a landmark report on internal control: Internal Control - Integrated Framework, referred to as "COSO". The framework classifies an organisation's internal control system in to five integrated components which must be built into business processes across the entire entity, in its efforts to achieve objectives. The components are; 1. control environment, 2. risk assessment, 3. control activities, 4. information and communication and 5. monitoring activities.



Source: Researchers design based on COSO's Internal Control framework

Internal control system is an integrated system, integrated with management processes to achieve overall organizational goals. For an organisation to achieve its organizational objectives, then the five control components of control environment, risk assessment, control environment, information and communication and

monitoring must be integrated into management processes over the entire organization (Subsidiaries, divisions, units). Like the body system, the internal control components and business processes must interact ceaselessly for a healthy, effective internal control system. The seamless and collaborative interaction of an internal control system with business processes is a prerequisite for the effectiveness of an internal control system. Control objectives and measures that are derived from the monitoring and assessment of risks must be integrated into operational business units' business practices (PricewaterhouseCoopers, 2007), through an effective information and communication control component that ensures smooth flow of information to personnel responsible for internal controls across the entity.

2.3 Internal control systems effectiveness

The effectiveness of an internal control system is dependent on how fluid the system interact with itself and how embedded it is into the organizations business processes. Again for an internal control system to be effective and provide that needed assurance to the board, there should be some "agents of effectiveness". These are a vibrant board, which does not wait to be informed but a board that understands the business and questions the status quo, and an effective, independent internal audit unit. Internal control is a process, but its effectiveness is a state or a condition at point of the process. Therefore it is important for management and the board to evaluate and assess the effectiveness of the internal control system periodically. According to COSO, an internal control system can be judged to effective on the high level if the board of directors and management have reasonable assurance that: 1. they understand the extent to which the entity's operations objectives are being achieved, 2. published financial statements are being prepared reliably, and 3. applicable laws and regulations are being complied with (COSO, Internal Control-Integrated Framework, 1992). An internal control framework that places too much emphasis on detailed explanation of the different components of the system and methods for their design but ignore details on how each of the components can be measured to assess their effectiveness is a deficient control system in itself (Amudo & Inanga, 2009). The effectiveness of an internal control system is a function of the workings of the five components of the system. Consequently, assessing effectiveness of internal controls must be done in relation to the components of internal control. Judging whether an internal control system of an organization is effective or not is a subjective verdict resulting from the assessment of the workings of the five components of internal control system across the entire



organization (COSO, Internal Control -Integrated Framework, 2011). In assessing internal control effectiveness, the evaluator must understand the operations of the five components, the intent of the principles and assumptions underlying the operations of the control

components and how they are applied across the organization. The researchers in assessing the effectiveness of the internal control system of Ghanaian banks, adopts COSO's 1992 principles and assumptions of assessing the effectiveness of internal control systems.

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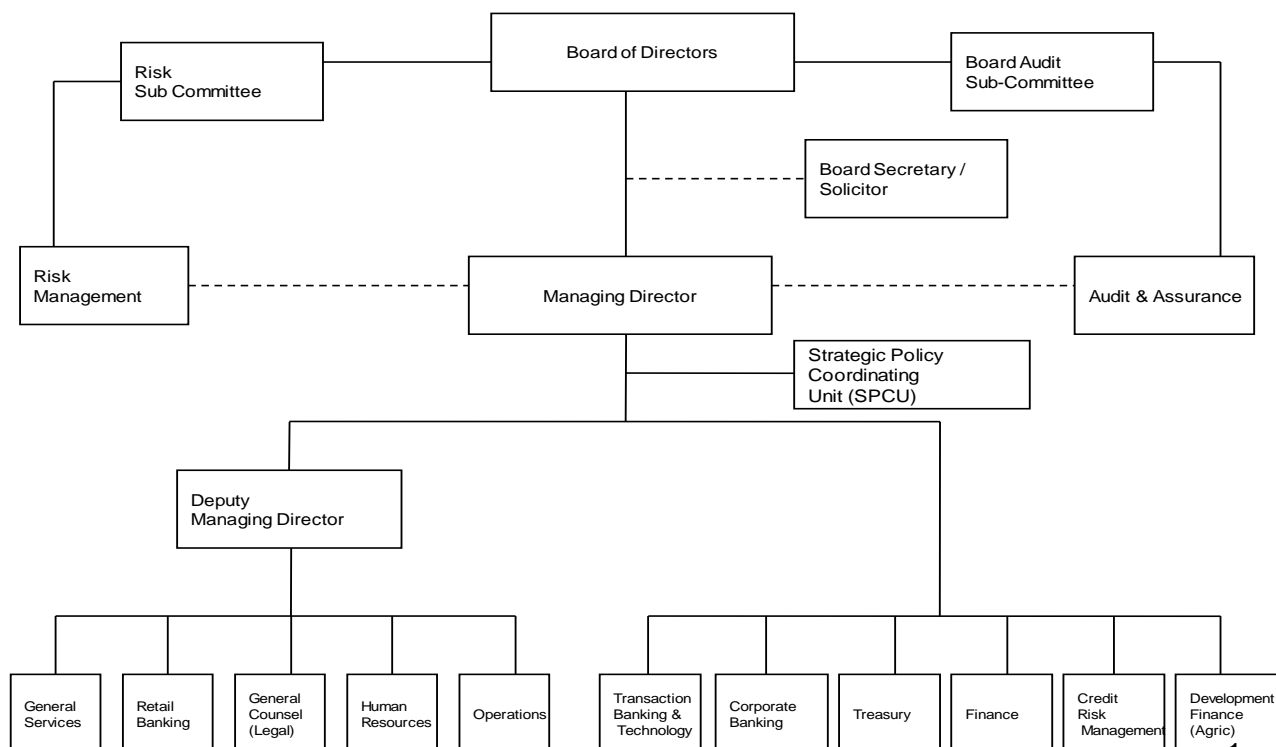
Type of Business

- Business Services / Finance / Banks & Financial Institutions
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Agricultural Development Bank Top Functional Structure



October 21, 2009



INTERNAL AUDIT IN BANKING ORGANISATIONS

The Basel Committee on Banking Supervision in 2001 and 2002 published a study on internal audit in banking organisations and on the relation between institutions performing banking supervision and internal and external auditors. Effective internal audit, which independently evaluates control systems within the organisation, is the starting point for an appropriate internal control of banking institutions. External auditors provide their view on the internal audit. Institutions performing banking supervision by means of internal and external audit ensure that the bank's management applies effective procedures and practices and that it responds to shortcomings, where these have been identified by internal or external auditors. The cooperation of all these parties provides for optimal supervision over banking institutions.

The principles described are applicable in the full extent. However, differences exist between individual countries, where this is influenced by the position of external auditors, the management structure of banks, or the legislative conditions of banking. Application of the audit principles described in practice is therefore governed by the national legislative standards of each country.

INTERNAL AUDIT IN BANKING ORGANISATIONS

The Board of Directors of the Institute of Internal Auditors in June 1999 described internal audit as: "Internal audit is an independent, material and consultancy activity, which adds value and improves the functioning of an organisation. It helps the organisation achieve its aims by means of a systematic, disciplined approach to evaluating and improving the effectiveness of risk management, control and the management process." Although the need for objectivity and impartiality is of particular importance for the internal audit department in a banking institution, this does not exclude the possibility that this department, too, may contribute to advisory and consultancy activity, if the independence of analyses and evaluations is ensured. Some banks have also introduced a system of evaluating their activities, which does not replace, but supplements the function of the bank's internal audit. This is a formal and documented process whereby management and employees analyse their activities and evaluate the effectiveness of the related internal control procedures.

Internal audit has several aims and principles which it is necessary to adhere to. It is the board of directors of the bank, however which bears final responsibility that the bank's management applies an appropriate and effective

system of internal control, a system of evaluating banking activity risk and risks concerning bank capital, appropriate methods of monitoring compliance with laws, measures and internal procedures. Likewise, the bank's management is responsible for drawing up procedures which identify measure, monitor and control the risks that the bank faces. The management must ensure an organisational structure that clearly defines powers and responsibility. It is responsible for risk management, proposing suitable internal control mechanisms and monitoring their adequacy and efficiency. Internal audit is a part of the repetitive monitoring of the internal control systems of the bank and its procedures for evaluating internal capital. As such, it assists management and the board of directors in the effective performance of their responsibility as outlined above.

The internal audit department

Every bank should have an internal audit department on which – with regard to the volume and nature of its activities – it can rely. In smaller banks internal audit is often provided externally. The internal audit department in a banking institution must be independent from the activities which it controls and must likewise be independent from the day-to-day internal control processes. In this way it is guaranteed that this department performs its activities objectively and impartially. Internal auditors may not have a conflict of interests with the bank. Every bank should have formalised principles of internal audit providing for its position and powers in the framework of the bank. There should here be codified the scope of work of internal auditors, the position of the whole department in the bank's organisational structure, relations with other control departments, etc.

Internal audit must be objective and impartial, meaning that it should perform its activity free of doubts and interference. Members of the internal audit team may not participate in the bank's operations or in the selection and implementation of internal control systems. The professional competence, as well as internal motivation and systematic professional development of each internal auditor are essential factors for the correct functioning of the whole internal audit department of the bank. It is also recommended to rotate individual auditors in the framework of the department, so that the routine performance of work activities is avoided. The internal audit department manager should be responsible that the department performs its activities in



accordance with the due principles of internal audit. Especial care should be taken that the audit plan is drawn up formally and procedures for all members of the team are in writing. The professional competence of the department's employees must always be ensured, as must their regular training. The internal audit department is responsible to the bank's management and its board of directors, possibly also to the audit committee, if the bank has one. These bodies of the bank should primarily be informed as to the progress of the audit plan and the attainment of the internal audit department's objectives.

The audit plan

Each activity and each of the bank's subjects (i.e. its subsidiaries or branches) should fall within the scope of the internal audit. None of the bank's activities or any of its subjects may be excluded from an internal audit examination.

The internal audit department should have access to the bank's records including and information and minutes from meetings of the advisory or decision making bodies of the bank, where this is relevant would regard to the performance of the internal auditors' activity.

As part of the process of assessing the bank's internal capital the internal audit department should regularly and independently control the risk management system, on the basis of which the relation of risk to the bank's capital is evaluated, and control the methods on the basis of which the compliance of internal procedures concerning capital is assessed. The assessment of risk in relation to the bank's capital is a part of risk management which is oriented on the bank's overall business strategy in various fields. It must be clearly identified in the bank the department or individuals responsible for controlling the bank's capital evaluation processes.

This control may be performed by the bank's internal audit department or another department which is sufficiently independent from the bank's operations.

Internal audit includes a plan of the audit, an examination and evaluation of available information, communication of the results and fulfilment of recommendations.

Several types of internal audit exist, for example:

- a) financial audit, the aim of which is to evaluate the reliability of the accounting system and the information contained in the consequent financial results,
- b) compliance audit, the aim of which is to evaluate the quality and suitability of systems proposed for the purpose

of ensuring compliance with a legal requirements, measures and procedures,

c) operations audit, the aim of which is to evaluate the quality and suitability of other systems and procedures, analyse the organisational structure and assess the suitability of methods and resources,

d) management audit, the aim of which is to evaluate the quality of the management's approach to risk and control in the framework of the bank's overall aims.

Since the internal audit department examines and evaluates the overall activities of the bank, it should not focus simply on one type of audit, but should employ the most appropriate type depending on the objectives which the audit is to achieve.

Relationship of internal audit and banking supervision Banking supervisory authorities should evaluate the work of a bank's internal audit department and, where satisfied with their work, may rely on the internal audits findings in identifying areas of potential risk. Bank audit bodies issue various measures concerning banking internal control systems. However, the scope of these measures varies from country to country, though in general covers the basic principles of a suitable control system in the fields of bank capital, credit risk management, and other risk (for example exchange rate, interest rate, liquidity management risk). Banking supervision makes use of various approaches to evaluating the quality of internal control. One of these is that it evaluates the work of the internal audit department, including testing management processes in identifying, measuring, monitoring and controlling risks. If the bank's supervisory authority is satisfied with the internal audit department's work, it may use the internal auditors' reports as the primary mechanism for identifying the bank's potential problems or fields of potential risks that the auditors have not yet controlled.

Banking supervisory authorities should hold regular discussions with a bank's internal auditors on fields of risk and measures that it will be necessary to implement in connection with these risks. Although internal auditors do not draw up all the procedures in a bank – other than internal control procedures – it is their duty, and in the bank's shareholders' and creditors' interest, to notify the board of directors and audit committee (where the bank has one), if it believes that the bank's management is acting in conflict with legal regulations or the bank's internal regulations. Banking supervisory authorities should organise regular meetings of the managers of the internal audit departments of various banks. Individual department managers may at these meetings exchange knowledge and



opinions on topics of common interest in their banking sector.

Mutual coordination of auditing functions

Mutual coordination of auditing functions and supervisory activities

External and internal auditor

Banking supervisory authorities support consultation between internal and external auditors with the aim of improving, as far as possible, the efficiency of their cooperation. External auditors influence the quality of internal control by means of their auditing activities, including discussions with management and the board of directors for the audit committee and recommendations for improving internal control. Internal audit is in general useful for determining the nature, time frame and scope of the audit's external procedures. Nevertheless, the external auditor is responsible for his/her opinion on the financial statements. The external auditor or should have access to all relevant reports from the internal audit department and should be informed on all significant matters that the internal auditor learns of and which could influence the internal auditor's work. Vice versa, the external auditor, too, informs the internal auditor of all significant matters that may influence the internal audit. The internal audit department manager should ensure that the department's work does not overlap with that of the external auditor's. Internal and external auditors should regularly communicate, exchange information, auditors reports and knowledge on various audit techniques and methods.

External auditors should perform work for banking supervisory authorities only on a contractual basis. All tasks commissioned by banking supervisory authorities to external auditors should correspond to their regular activity and should fall within their competence. Both banking supervisory authorities as well as external auditors have an interest that an appropriate accounting system exists at the bank. The role of external auditors varies from country to country. A common factor is, however, the expectation that external auditors understand the internal control system of the bank to the extent in which it influences the precision of the bank's financial statements. Similarly, from external auditors it is expected that they will inform both the bank's management as well as the banking supervisory authorities of all significant shortcomings that they find in their work.

Various fields exist for which the work of the banking supervisory authorities and external auditors is mutually beneficial. An advantage is that external auditors can gain an overview of a bank directly from banking supervisory

authorities. In some countries the role of external auditors is even taken to include, for example, controlling methods used in banks, evaluating the adequacy of organisation and the internal control system, determining whether a bank complies with all legal requirements, evaluating and the activity of a bank's internal audit department, giving an opinion as to whether all accounting procedures have been adhered to. It is however recommended to apply legal procedures that do not impose the burden of liability on external auditors for information that they provide in good faith to banking supervisory authorities.

In some countries banks outsource internal audit, while in other countries it is, conversely, required that internal audit be performed by an internal department of the bank. Regardless of whether internal audit activities are outsourced or not, the board of directors and the bank's management remain responsible for the effective functioning of the internal control system and the internal audit itself. In certain countries it is required that internal auditors coming from an environment outside the bank are independent from the bank's external auditors. Elsewhere it is permitted that internal auditors are from the same firm as external auditors. The contract signed between the bank and the firm providing internal audit services to the bank contains provisions concerning the tasks and responsibilities of internal auditors. Banking supervisory authorities always require an evaluation of the operations risk in a bank outsourcing its internal audit services. In general the services of a consultancy firm providing internal audit are much more advantageous and acceptable in smaller banks.

Standing audit committee

A practical solution to all the difficulties that could arise from the fact that the bank's board of directors has the task of ensuring the existence and functioning of an appropriate control system is to set up a standing audit committee. Such a committee strengthens the internal control system as well as internal and external audit. Therefore, in general it is recommended that banks, in particular those with complex activities have a standing audit committee. Also the subsidiaries of a bank may then consider the suitability of such a committee in the framework of their boards of directors. In setting up such a committee the bank's board of directors should set out, in writing, the powers, responsibility and duties of the audit committee, as well as the form of reporting, which the committee is to prepare for the board of directors.



The board of directors should regularly update this written document. The audit committee should be composed of at least three members of the board of directors who are neither current nor former members of the bank's management. At least one of the members should be well-qualified in financial reporting, accounting or auditing and all members should be knowledgeable in fields necessary for fulfilling the duties of such a committee. Members of the committee may have access to certain information for the purpose of performing control.

The audit committee regularly submits reports to the banks board of directors.

THE ROLE OF INTERNAL CONTROL AND INTERNAL AUDIT IN BANKING OPERATION

Speech by Danièle Nouy, Chair of the Supervisory Board of the Single Supervisory Mechanism, at the European Confederation of Institutes of Internal Auditing (ECIIA) conference,

Paris, 22 September 2015

It is a pleasure to be here today to address the European Confederation of Institutes of Internal Auditing (ECIIA) and I wish to thank the organisers of this event for the interest they have expressed in my participation.

The conference gives me an opportunity to reflect, with you, on the role of internal control and internal audit. These functions are at the centre of sound management, especially for credit institutions in advanced financial systems.

From the very beginning, the Single Supervisory Mechanism (SSM) has focused its attention on the controls and internal governance of credit institutions, and made them a key feature of its methodology.

I will start my remarks by looking at the main changes we are observing in the regulatory and supervisory landscape in Europe with the establishment of the SSM. Then, I will elaborate on SSM expectations regarding the internal audit functions at credit institutions and on the supervisory dialogue with banks' internal audit functions in the near future.

The changing regulatory and supervisory landscape with the SSM

The European banking landscape underwent a complete regulatory overhaul recently. In the last four years, new

rules on prudential requirements have been introduced. For example, there was the Capital Requirements Directive and Regulation – the so-called “CRD IV package”. National rules to restructure or resolve ailing banks were harmonised through the Bank Recovery and Resolution Directive. A new euro area-wide banking supervisory system, the SSM, was set up. A single restructuring and resolution authority, the Single Resolution Mechanism, was established and will soon have its own resolution fund.

This broad set of reforms follows an overall logic. In the highly interconnected euro area financial system, systemic risks originating in each of the member countries tend to spread and spill over easily. Hence, national measures need to be coordinated to avoid exacerbating risks, generating contagion and leading to the fragmentation of Europe's single financial market due to insufficient coordination at European level.

Against that background, the SSM brings the necessary European dimension to banking supervision. Assisted by national supervisory authorities, the ECB acts as a single decision-maker, responsible for the effective functioning of the overall system.

While the SSM is a single system, with the ECB ultimately responsible for its functioning, different modalities apply depending on the size and systemic importance of credit institutions.

Importantly, day-to-day supervision of significant credit institutions is carried out by specialised groups of supervisors, the Joint Supervisory Teams (or JSTs). These teams consist of experts from the ECB and the national competent authorities, under the coordination of the ECB. This close cooperation within the JSTs helps to maintain knowledge and understanding of pertinent issues at a national level and to develop a common supervisory culture, achieving more convergence of supervisory practices within the banking union.

The day-to-day supervision of less significant credit institutions continues to be carried out by national competent authorities, but the same “SSM supervisory model” which is being developed will be applied to all credit institutions, taking into account the proportionality principle.



Under this framework, the SSM – as a new system of banking supervision – aims at enhancing the interaction of the supervisors with the supervised institutions, strengthening transparency and communication, as well as promoting a consistent approach and a true level playing field. We do this by identifying the common supervisory priorities on the basis of the main risks faced by the European banking sector and by carrying out benchmarking analyses and horizontal “thematic reviews”, to name but a few. In fact, in the first Supervisory Examination Programme, the JSTs have devoted specific attention to the assessment of the internal governance arrangements of credit institutions. When looking at governance, one of the most important components of the analysis is, of course, the adequacy and effectiveness of the internal audit function in the context of the internal control framework.

The framework and supervisory expectations related to internal audit

In this regard, let me now turn to the second part of my remarks, which will be devoted to the SSM expectations regarding the internal control framework in credit institutions and the role of internal audit in particular. I would like to start by recalling the legal framework within which the SSM operates.

CRD IV states that robust governance arrangements include, among others, effective processes to identify, monitor and report the risks, as well as an adequate internal control mechanism.

Usually, the implementation of these rules through more detailed local prudential regulations – including those necessary to transpose CRD IV at the national levels – has taken advantage of the BCBS and EBA principles and guidelines [1]

, which are consistent with a sound internal control framework based on the so-called “three lines of defence” system, where each of the three lines has an important role to play.

Let me recall the basic definitions. The business line – the first line of defence – has “ownership” of risk, whereby it acknowledges and manages the risk that it incurs in conducting its activities. The risk management function is responsible for further identifying, measuring, monitoring and reporting risk on an enterprise-wide basis as part of the second line of defence, independently from the first line of

defence. The compliance function is also deemed part of the second line of defence. The internal audit function is in charge of the third line of defence: conducting risk-based audits and reviews to provide assurance to the Board that the overall governance framework, including the risk governance and internal control framework, is effective.

Therefore, it goes without saying that the internal audit function has a vital and prominent role, being responsible for an independent review of the first two lines of defence and for proactively promoting best practices within the organisation by addressing the existing main weaknesses in the business areas to the management body and asking for prompt remedial actions.

And as you know it does not stop there. The Audit Committee at the Board level also has an important role to play, as do credit institutions’ external auditors. The Audit Committee is uniquely positioned to oversee the setting-up of risk management systems and to embed the risk culture in the core corporate values.

Again, as our own and many national assessment procedures confirm, the relationship between internal and external auditors is very important and can be essential in some instances. We have seen that occasionally external auditors will rely on the work of internal audit, and this requires trust, cooperation and mutual respect.

In the near future, an important issue requiring cooperation between external auditors and internal audit functions of credit institutions will be the implementation of IFRS 9 on financial instruments. The completion of this accounting standard as one of the responses to the financial crisis will bring major changes and challenges to the industry, mainly regarding the implementation of the new expected loss model.

Moving on to the SSM supervisory practices, we pay particular attention to the assessment of the overall internal control system. Each of the functions I mentioned before can assist the Board by giving comprehensive information on the appropriateness of the level of risks being taken and the adequacy and integrity of the associated governance and risk management.

Regarding the effectiveness and reliability of the internal audit function, in practice, during the yearly Supervisory



Review and Evaluation Process (SREP) cycle, the JSTs are asked to assess:

- whether internal audit has been granted organisational independence from the heads of the business units as well as whether internal auditors' objectivity has been properly protected by having direct access and reporting to the management body;
- whether the function has been provided with adequate resources (in terms of staffing, competences, skills and expertise) to perform its prominent tasks and whether the annual plan adequately covers all necessary areas, including in particular risk management, compliance, ICAAP and ILAAP, as well as internal models; and
- whether the internal audit function is properly empowered to enforce in a timely manner, with the commitment of the management body, the remedial actions required in order to address the weaknesses detected.

One of the main responsibilities of the management body is to ensure that an effective and properly empowered internal audit function is established. Therefore, we expect that, periodically, the management body:

- appoints suitable Heads of Internal Audit;
- evaluates the adequacy of the internal audit function in accordance with national and international professional standards; and
- reassesses to what extent its reviews cover the whole range of activities of an institution, including the risk appetite framework elements (such as risk limit breaches and risk measurement and management processes and methodologies).

Regarding the appointment of internal auditors, this is primarily a responsibility of the credit institutions: they need to assess the suitability of their internal auditors according to internal fit and proper standards. However, it is possible that in certain member countries the Head of Internal Audit, for instance, who is not part of the management body, is considered to be a "key function holder" within the credit institution. In that case, a fit and proper assessment is carried out by the competent authorities. According to the EBA Guidelines, a fit and proper assessment of a key function holder should include the following criteria: reputation, experience, independence/conflict of interests and time commitment.

All these points highlight crucial challenges for the internal audit function and in particular:

- the reinforcement of competencies and expertise of the overall internal audit staff. The skill mix needs to include accounting, expertise in compliance checking, treasury management, IT and strategic thinking;
- within a banking group, it is also important to ascertain whether there is a good balance between the organisation of internal control functions at group level and the way that internal control functions operate at entity level; these must be closely aligned. Naturally, according to the principle of proportionality, the structure and design of the internal control functions should be dependent on the size and complexity of the credit institutions.

Taking all this into account, if the internal audit function is assessed as reliable in the day-to-day supervision carried out by the JSTs because it is really independent, empowered and able to raise material issues with the management board and to enforce its recommendations within the institution, then a fruitful and enhanced channel of two-way communication can be established, where both parties can benefit from a transparent discussion on the risk areas identified and the actual risk mitigation measures taken by credit institutions. The supervisory dialogue with the internal audit function in the near future

In recent years, internal governance has been closely scrutinised. Consequently, the expectations incumbent on boards and senior management, and on those in charge of providing an independent and objective review of a credit institution's operation, have been raised.

Now more than ever, a robust and capable internal audit function, with the skills to identify risk control deficiencies and with the independence and authority to pursue its role, is essential to also ensure the adequate discharge of management body responsibilities. In this vein, internal auditors are, as well, a traditional ally of the prudential regulator.

Perhaps there is also a lot of curiosity about the framework for the future relations between the internal audit functions and the SSM. In that respect, we fully acknowledge that internal audit is an internal function of credit institutions, directly reporting to the management body, but anyway I strongly believe that an enhanced channel of communication between these two parties would be very beneficial in order to extract synergies, when possible, for the work each has to perform.



How are the JSTs shaping their dialogue with the internal audit functions of credit institutions? Of course, we cannot generalise, because it is under each JST's responsibility to establish specific tailor-made relations with the internal audit functions based on the specificities of each credit institution, its complexity and geographical diversification of activities; still, establishing the right relationships with the internal auditors will always feature high on teams' agendas. In other words, the ECB provides the level playing field through a common methodology for the assessment across the SSM, but then the practical arrangements and practices concerning the kind of relations with the internal auditors are tailored to the specific features of the bank and of the JST itself.

It is clear that in shaping such a dialogue (or two-way communication channel), frequent meetings are the most useful tool and, in the context of the annual Supervisory Examination Programme, a number of meetings with the internal auditors are being planned, at different frequencies depending on the complexity of credit institutions and of existing issues.

Conclusion

As a conclusion, let me remind you of the extremely high stakes we face.

After the creation of the euro, banking union is the next logical step in the construction of our common European house, and a major one. The financial markets, the public and the international community are watching us, with understanding and encouragement, but also with a critical eye. We cannot afford to fail.

The ECB has been entrusted with this fantastic and stimulating challenge and is fully committed to making this work. We urge support from all sides, first and foremost from the banking industry.

We count also on your support. One of the lessons learned from the recent global financial crisis was precisely the need to strengthen overall corporate governance practices. The ECB values professional associations and their input towards a sound and comprehensive professional culture. The internal audit profession's contribution is important to incentivise such a professional culture and you play a significant role in the development and general dissemination of principles, values, standards and rules of

behaviour that guide the decisions, procedures and systems of an organisation.

CHAPTER THREE

METHODOLOGY

AGRICULTURAL DEVELOPMENT BANK

Introduction

A very important area in research work is the choice of methods, techniques, procedures and processes for the study. The methodology has an important impact on the result of the study because the outcome of any research is dependent upon relevant and verifiable data. This chapter therefore concentrates on the procedures, processes and techniques used in collecting the necessary data with regards to the stated problems, questions and analyzing them for decision making for the purpose of the study. In order to properly address the research topic under consideration, we have to look at the collection and recording of data by the internal control department in Agricultural Development Bank-Kaneshie branch.

Research Design

The research design of this study is a type of an assessment. The researchers used various techniques of data collection such as interviews, observation and use of documents and questionnaire to critically analyse the internal control system in the banking institutions.

Population

The population chosen for the research work were the management and the employee body of Agricultural Development Bank from their population.

Sample and Sampling Technique

The sample covered most of the sampling populace. The minimum sample was thus assigned to each specified group, especially the management and the employees of the bank and for fair and accurate compilation of data analysis.

The sample method was simple random sampling. The choice of this approach was on the grounds that it will be quicker and cheaper and will also have the ability to present a high degree of accuracy in the data to be collected. The researcher distributed twenty (20) questionnaires to the



management and employee of the internal control department of the bank

Data Collection Instrument

Primary data are the main data from original source received directly from management and employees by means of questionnaires, interviews and observation, performance of an activity. The questionnaire are later collected and processed for information for the purpose of the research work.

Secondary data -This is data used for further purposes by others for original work but of use by the researchers for their current work. Secondary data are obtained from books, journals, magazines, daily papers etc. these are collected and processed or used by someone in the past and they therefore exist in secondary form. Finally, articles, use of internet, and other published writings of various authors on the subject matter.

These are instruments the researcher uses in gathering information. They are namely

- i. Library research
- ii. Questionnaire
- iii. Interviews
- iv. Observation and use of documents.

Library Research

Library research played a great role in the provision of secondary data and information. The main libraries visited were university of Ghana Legon, Accra Polytechnic, the use of internet and Kings University books listed under bibliography of this research were read at those libraries and most of the information obtained was used in writing chapter two of this research work.

Questionnaire

Questionnaire can be defined as a series of structured questions which are related specifically to a research topic which are also directed to a respondent with the aim of gaining first-hand knowledge on the topic posed to him.

The questionnaires provided the type and amount of information which other methods cannot provide. For more

effective and quality field assistant, it was an ultimate aim for this piece of research work to administer sets of questions on the management and employees of internal control department of Agricultural Development Bank.

Questionnaire was designed by the researchers themselves to collect data from the management and employees of the bank. In designing the questionnaire, the researchers used a combination of open and close-ended questions.

Questionnaires are less expensive than other methods because it can be sent through the mail of which interview cannot. Even though we can have interviews on telephones, it is very expensive.

Interviews

Interview schedules were also used in the collection of data from the bank cashiers. The instrument was used among the bank's cashiers because they were very busy serving customers at the time the researchers needed the information from them and it was anticipated that when questionnaire were given to them, the percentage that will respond will be very low. They were structured in such a way that respondents had very little or no difficulty in giving accurate responses.

Observation and Use of Study Documents

Observation was adopted with the purpose of assessing the physical control procedures in the bank. Because of the nature of this study, documents were also obtained as a method of data collection and this use to examine the extent of control mechanism in the bank.

Validity and reliability

The researcher exercised great care in the construction of questionnaire and interviews schedules for the collection of data. They were very simple and straight forward and also in a language well understood by respondents. In addition, the friendly atmosphere created together with good interaction between the researchers and respondents during interviews motivated respondents to provide reliable data. The results of this study therefore could be said to be valid and reliable.

ANALYSIS OF DATA The researcher in analyzing findings of the study used tables. The data was further illustrated using percentages to provide easy understanding. A few graphs were also used.



Problems of Data Collection Exercise

During the period of the data collection exercise, the following were be the problems that we encountered,

- i. As and when the questionnaires sent to the bank will be received when the researchers went round to collect them.
- ii. The officials of the bank on their part were not willing to provide certain vital information because they thought it was confidential.
- iii. The extent to which Agricultural Development Bank staff will be willing to fully disclose the inadequacies of the internal control system including the financial reporting that have taken place so far.
- iv. The extent to which Agricultural Development Bank staff will cooperate with the researcher, give adequate information on the bank's internal control systems

The researchers also incurred a lot of cost in traveling to the case study area to collect the questionnaires

FAN MILK INDUSTRY

Introduction

This chapter contains a discussion of the approach that was used in carrying out the research. It focuses on the description of the basic plan and methods used in the study upon which findings and interpretations and conclusions in the subsequent chapter will be based. The areas covered include; research design, population, sample size and sampling technique, data collection instruments, type of data collected and sources, administration of the questionnaires, method of analysis, data collection procedure (validity, reliability and limitation). The survey was conducted with the objective of evaluating the extent to which the internal audit department is positioned to contribute towards one of the major objectives of ascertaining good corporate governance in the Fan Milk Industry of Ghana.

Research Design

A cross-sectional research design was used to get both qualitative and quantitative data some departments in Fan

Milk Ghana Limited. Furthermore, descriptive research design and a time series research design were employed using annual data. The descriptive research design was used to describe and examine the data obtained while analytical research designs was used to establish the effect of the internal audit function on the performance of Fan Milk Ghana Limited. Secondary and Primary data were used, which were taken from questionnaire responses and research from the internet and other research books.

The Population

The population of the research comprised of managers, sales personnel and other officers of Fan Milk Industry in Ghana. Eleven sales depots in Accra were targeted for the study. However, two of the sales depots were excluded for reasons of non-return of the questionnaire and reluctance on the part of the officers in the sales depot to answer the questionnaires. Hence, nine depots were used.

Sample and Sampling Technique

The sample was drawn from the entire nine sales depot under the study. The sample size for the research was twenty-three (23). This was made up of three (3) managers, three (3) accountants or operations officers, three (3) sales personnel, two (2) internal auditors and twelve (12) other Fan Milk Ghana staff.

A combination of simple random sampling and purposive sampling techniques were used in selecting the respondents. The purposive sampling technique was used for the managers, accountants or operations officers, and internal auditors, while the simple random sampling technique was used for the sales personnel and other Fan Milk Ghana staff.

Data Collection Instruments

Structured questionnaires are the main data collection instrument used. Two sets of questionnaires were used in gathering the data from the respondents. The questions were both opened-ended and close-ended. One of the questionnaires (Appendix A) contained eight sections comprising of organizational information, internal audit department, audit committee, independence, audit plans and programs, competence of the internal audit staff, professional audit standards, and reporting and follow-ups. The sample for this questionnaire is twenty-one (21), administered in eight (8) sales depots. The other questionnaire (Appendix B) which contained one more section (outsourcing of internal audit function) in addition to those in Appendix A was administered to Internal Auditors and some selected sales personnel in the sales depot.



Type of Data Collected and Sources

The survey was conducted by collecting mainly primary data, through questionnaires, from staff of Fan Milk Industry in Ghana. Secondary data were also included in the study through references to authoritative books and web pages and the organization to get an accurate figure of employees. This included relevant literature such as newsletters, internal audit materials, text books, standards for the professional practice of internal auditing and ethics for internal auditors by the Institute of Internal Auditors (IIA) and The Internal Audit Agency Act, 2003 (Act 658).

Administration of Questionnaires

The questionnaires were given to the respondents by the researcher. This provided the researcher an opportunity to respond to whatever preliminary questions the respondents would raise before responding to the questionnaires. The distribution of the questionnaires took six days. My expectation was for the respondents to use a maximum of one week to complete the questionnaires. But there was a delay. The reasons provided for the delay in completing the questionnaires included pressure at the work place and forgetfulness; quite reasonable especially with Fan Milk staff. The administration of the questionnaires therefore took a period of forty-six (46) days.

Methods of Analysis

The data collected by means of questionnaires were analyzed using the Statistical Product for Social Sciences (SPSS) and Microsoft Office Excel software. This method was employed for the close-ended questionnaire items. The qualitative method of analysis was used for the responses on open-ended items and questions on the questionnaire for internal auditors that are meant for only internal auditors. Questions that are common to both questionnaires are jointly analysed. Frequency tables and chart was employed in the analysis.

Scope and Limitation

The study was conducted through a survey of the officers in the Fan Milk Industry in Accra. The use of a sample instead of the entire population of the staff could result in sampling error that could have an effect on the result of the research. Again, the exclusion of the Spintex depot from the study may affect the outcome of the study. The assumption made by the researcher was that the sample selected was a good

representation of the population of officers in the Fan Milk Industry.

Also, respondents in the study were mainly non-auditing staff of internal audit services (91%) rather than providers of the services (internal auditing staff). Most of the sales depots in Ghana have their internal audit departments (IADs) at their Head Offices located in Accra and places outside Ghana. This required that some questionnaires be administered at the Head Office internal audit departments for a more comprehensive study. However, due to cost and time constraint the sample was drawn only from sales depot in Accra, the center of the study.

Despite all these short-comings, the researcher has a strong belief that the results of the study are highly reliable.

CHAPTER FOUR

RESULTS AND DISCUSSION

PRESENTATION AND DATA ANALYSIS

AGRICULTURE DEVELOPMENT BANK

Introduction

This chapter involves the critical analysis, presentation and findings of data gathered with regards to information administered to management and employees of Agricultural Development Bank-ADB (Kaneshie Branch).

The researchers distributed twenty (20) questionnaires to the management and employees of the internal control department of the bank. Out of this number, fourteen (14) questionnaires were answered and received by the researchers. Ten (10) questionnaires were given to the management but when the researchers went to collect them in a week's time, we have access to eight of them being answered. With the employee, Ten (10) questionnaires were given out to them but only six (6) were being answerer.

Fourteen (14) questionnaires which were collected by the researchers were used since they were considered enough to represent the whole twenty (20) distributed. These questionnaires received formed 70% of the total questionnaires distributed.

Control Environment

The internal control system for accounting and financial information must be more than just a set of procedural manuals and documents. The organization and



implementation of internal control hinges on the awareness

Responses	Respondents	Respondent rate (%)
All	14	100
A few	0	0
None	0	0
Total	14	100

and participation of the people concerned.

The core of any business is its people- their individual attributes, including integrity, ethical values and competence- and the environment in which they operate. They are the engine that drives the entity and the foundation on which everything rests.

Sample of the Study

With the sample of the study, the researchers were able to collect eight (8) questionnaires from management; which represent fifty-seven percent (57%) and six (6) questionnaires from the employee which also represent forty-three percent (43%).

Distribution and Receipts of Questionnaires

The table below shows the distribution and receipts of questionnaires by the researchers.

Data Analysis

The following data were obtained from the field of investigation undertaken by the researchers through the administering of questionnaires to Agricultural Development Bank's (Koforidua Branch) management and employees

Responses to the various questions posed by the questionnaires are tabulated in tables, simple bar charts and pie charts.

Gender/Sex

Table 4.4.1: Gender distribution

GENDER	FREQUENCY	PERCENTAGE (%)
Male	9	64

Female	5	36
TOTAL	14	100

Source: Field Survey, June 2012

The interpretation of the above table is that 9 (64%) were male respondents 5 (36%) were female respondents. This means that more males filled the questionnaires than females.

Table 4.4.2 Table showing the networked branches

Source: Field Survey, June 2012

From the table, fourteen (14) respondents representing hundred percent (100%) said that all the branches were networked. Zero respondent for both a few and none representing zero (0%) for each. Looking at the hundred percent who said the branches were networked; this shows that operations were taking place smoothly in terms of networking.

Number of staff in the internal control department

The total number of workers in the internal control department is fourteen (14), five (5) out of the fourteen are in the audit unit and nine out of the fourteen are in the inspection unit. This information is presented in a bar chart form.

Figure 4.4.3.1 A bar chart showing the number of staff in the internal control department.

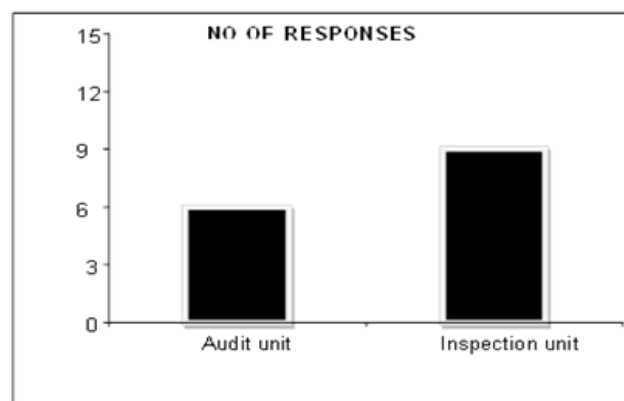


Table 4.4.2 The responses on the qualification and experience of the internal control department.



Responses	Respondent	Percentage (%)
Yes	14	100
No	0	0
Total	14	100

Source: Field Survey, June 2012

Looking at the table above, the qualification for most of the respondents at the internal control department of the bank is first degree qualification. The number of the respondents is six (6) representing 43%. Four (4) of the respondents have higher national diploma qualification working at the unit, thus representing 29%. Three (3) Professionals representing 21% also work with the unit and the remaining respondent, which is one (1) master degree, representing 7% working with the internal control department of the bank.

Table 4.4.3 Knowledge of internal controls of the bank.

Responses	Respondents	Years of experience	Respondent rate %
PhD	–	–	0
Masters	1	15	7
Professionals	3	16	21
First Degree	6	8	43
H.N.D	4	28	29
Total	14		100

Table 4.4.5 Responsible officers for controls in the bank.

Type of control	Supervision of control
Financial and regulatory reporting	Strategic, Policy coordinating unit(SPCU)
Risk management procedures	Head of risk management
Monitoring and Evaluation	Head of management
Audit and assurance	Head of audit and assurance
Reconciliation	Operation manager

Source: Field Survey, June 2012

Source: Field Survey, June 2012

From the table above, all respondents have knowledge on internal controls (14) representing hundred percent (100%).

Table 4.4.4 Responses on the internal control mechanisms of the bank

Control mechanisms	Respondent	Respondent rate (%)
Dual control	14	18.91
Calling-over	14	18.91
Reconciliation	14	18.91
Inspection and internal audit	10	13.5
Modification of passwords	8	10.81
Management Report	14	18.91
Total	74	100

Source: Field Survey, June 2012

From the summary of the analysis in the table 4.4.5, fifty-six (56) respondents which represent 75.64% strongly know the internal control mechanisms of the internal controls systems in the bank and eighteen (18), represent 24.36% know some of the internal control mechanisms in the bank.



The level of involvement of the Boards of Directors or Supervisory Boards as regards internal control varies from one company to another.

It is up to Executive Management or the Management Board to define, drive and monitor the system deemed to be the most suitable for the specificities and activity of the company.

Table 4.4.6 Responses on whether regular audits and spot checks are conducted to ensure compliance in day to day operations in the bank.

Responses	Respondent	Percentage (%)
Yes	14	100
No	0	0
Total	14	100

Source: Field Survey, June 2012.

From the table above, among the fourteen questionnaires collected from the internal control department, all the respondents are aware of the regular audits and spot checks conducted to ensure compliance in day to day operations in the bank.

Table 4.4.8 Procedures has been established to identify and resolve new and unforeseen accounting problems in the bank.

Responses	Respondent	Percentage (%)
Yes	10	71
No	4	29
Total	14	100

Source: Field Survey, June 2012

From the table above, ten (10) respondents, representing 71% agreed to the question that procedures have been established to identify and resolve new and unforeseen accounting problems in their operations, while four (4) respondents representing 29% were against the question that were posed to them.

Table 4.4.7 Responses on the function of authorization, checking and approval performed by one person.

Responses	Respondent	Percentage (%)
Yes	2	14
No	12	86
Total	14	100

Source: Field Survey, June 2012



From the table above, two (2) respondents said it is one person who authorizes checks and approves transactions and this represents 14% of the question posed to them. Twelve respondents also said the functions as to who authorizes, checks and approves transactions are not done by one person and this represent 86%.

Table 4.4.8 The internal control system for accounting and financial reporting include specific procedures to reduce the risk of errors and fraud in the bank.

Responses	Respondent	Percentage (%)
Yes	14	100
No	0	0
Total	14	100

Source: Field Survey, June 2012

From the table above, all the respondents have knowledge and know that there is specific procedures to reduce the risk of errors and fraud in the bank which represents (100%). Internal control systems like auditing and periodic checks, call over and periodic training.

Table 4.4.9 The aim of establishing Internal Control department in the bank.

Responses	Respondent	Rate (%)
To ensure that internal controls set up by management are being adhered to and to offer corrective measures were appropriate.	14	14.28
To ensure that, policies and procedures are adhered to for meeting the organizational goal/objectives	14	14.28
To help management implement its policies	14	14.28
To check management policies and give recommendation to prevent loss or fraud to the establishment	14	14.28
To safeguard the assets of the organization	14	14.28
To prevent and detect fraud and errors easily	14	14.28
To ensure that preparation of financial statement are on timely basis	14	14.28
Total	98	100

Source: Field Survey, June 2012

From the summary of the analysis in table 4.4.11, ninety-eight (98) of the respondents, representing 100% are aware of the aims of establishing Internal Control department in the bank.

Table 4.4.10 The internal control activities for accounting and financial reporting include procedures to protect assets



Responses	Respondent	Percentage (%)
Yes	14	100
No	0	0
Total	14	100

Source: Field Survey, June 2012

From the table above, all the respondents do know that there are internal control activities for accounting and financial reporting include procedures to protect assets (risk of negligence, errors and internal or external fraud) in the bank which represents (100%).

Table 4.4.11 Controls over investments in the bank.

Responses	Respondent	Percentage (%)
Yes	12	86
No	2	14
Total	14	100

Source: Field Survey, June 2012.

From the table above, among the fourteen questionnaires collected from the internal control department, twelve (12) respondents are aware of controls pertaining to investments and therefore said yes to the question that was posed to them. This number represents 86%. Two respondents however said no to the question. This number also represents 14%. The kinds of controls available for investments are as follows:

- The risks are assessed and all operations are cross-checked by higher authority
- There is always a constant review of investments by treasury division
- There is also authorization as to whether the bank should take up a particular investment or not.

Table 4.4.12 The controls for granting of loans and overdraft in the bank.

Responses	Respondent	Percentage (%)
Submission of loan applications	14	13.20
Vetting of such applicants	14	13.20
Insurance on loans and overdraft.	14	13.20
Securities on loans and overdraft	14	13.20
The customer's account.	14	13.20
The customer's investment.	12	11.32
The customer's turnover.	12	11.32
Proper monitoring of disbursed loans and ensuring recovery within due dates	12	11.32
Total	106	100



Source: Field Survey, June 2012

From the summary of the analysis in table 4.4.14, seventy (70) respondents, which representing 66% strongly know the controls for granting of loans and overdraft and thirty-six (36) respondents, which representing 34% know the controls of granting of loans and overdraft but not to the extent of all the controls in the bank.

Table 4.4.13 Responses on whether workers have independence relating to their work.

Responses	Respondent	Percentage (%)
Yes	9	64
No	5	36
Total	14	100

Source: Field Survey, June 2012

Looking at the table above, it shows that, nine (9) respondents representing 64% said they have independent relating to their work, while five (5) respondents representing 36% said that they do not have independent relating to their work. This means that, there is some kind of external factors affecting the smooth operations of the internal control department of the Agricultural Development Bank (Kaneshie Branch).

FAN MILK INDUSTRY

Introduction

This chapter discusses the presentation and analysis of data gathered from the respondents in the various sales depot in Accra. The data have been presented in tabular, graphical and narrative forms, where appropriate. Narrations and analyses accompany the tabular and graphical presentations. Findings made are also discussed.

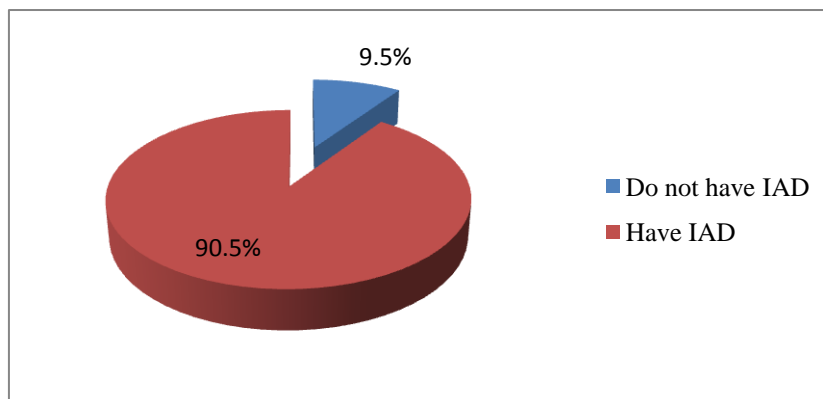
Table 1 Position of Respondent in Organization

Position of Respondent	Frequency	Percentage (%)
Managers	3	13.0
Accountants or Operations Officers	3	13.0
Sales personnel	3	13.0
Internal Auditors	2	8.7
Others	12	52.3
Total	23	100.0

Source: Field Survey July, 2015

The response to the questionnaires was quite good. Table 1 depicts half 12 (52.3%) of the respondents are of other rank in the organization, 3 (13%) of them are managers, accountants or operation officers and sales personnel's while the remaining 2 (8.7%) of the respondents are internal auditors.

Figure 2 Existence of Internal Audit Department



Source: Field Survey July, 2015

The survey results (Figure 4.1) depict that only 9.5% of respondents mentioned that their sales depot do not have an Internal Audit Department (IAD) while a greater percentage (90.5%) mentioned that their sales depot have Internal Audit Department. It also stated that these Internal Audit Departments are located at their head offices. Only two (2) out of the nine (9) sales depot on which the research was based have Internal Audit Departments located at their depot. In a sales depot where Internal Audit Department does not exist, the respondents expressed the need for it.

Table 2: Internal Auditing Model in Operation

Operation Model	Frequency	Percent (%)
Centralized model	19	82.6
Widespread model	2	8.7
Delegation model	0	0
Others	2	8.7
Total	23	100.0

Source: Survey July, 2015

As depicted in Table 2, out of 23 responses received on this item, 19 respondents representing 82.6% stated that the centralized model of internal auditing is in use. 2 (8.7%) of them stated the widespread and delegation model. This implies that only the Head Office has a structured internal audit department and it carries out auditing activities for all branches.

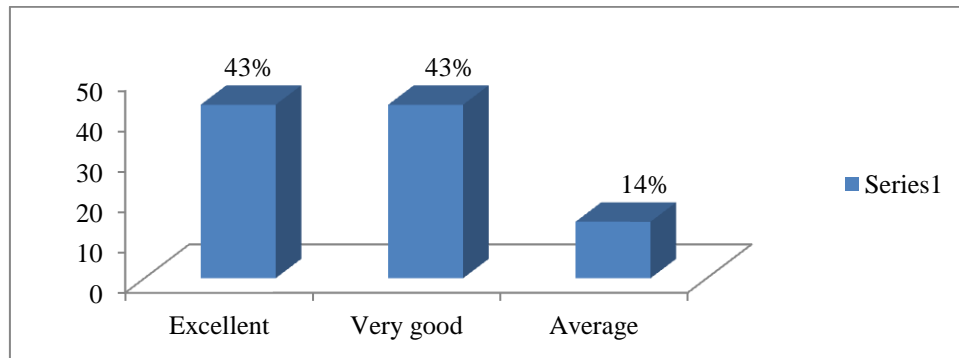
Table 3: Are the Head Office's internal audit resources used for branch work.

Internal Audit Resources Response	Frequency	Percent (%)
Yes	16	94.1
No	1	5.9
Total	17	100.0

Source: Survey July, 2015

Table 3 shows that branches of sales depot practically depend on head office Internal Audit resources for specific engagements. About 94.1% of those who responded to this item stated that branches use Head Office internal audit resources for specific engagements while 1 (5.9%) of the respondent disagreed to this statement. This implies that a branch of Fan Milk Limited depends on the Internal Audit resources of their Head Office.

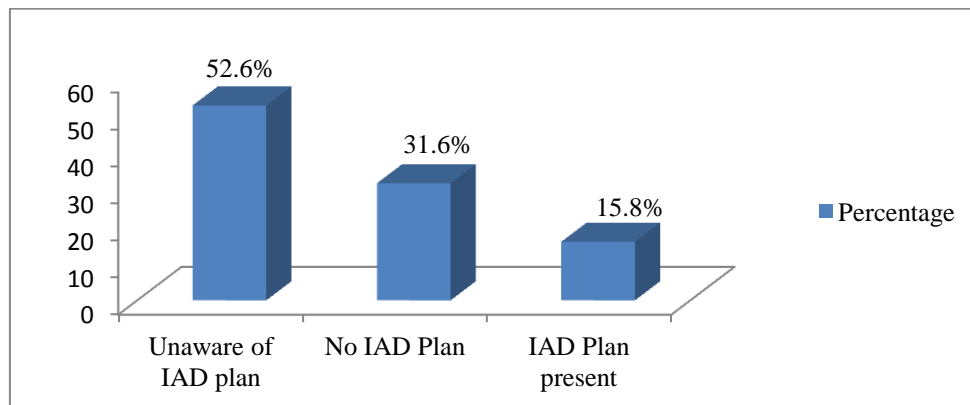
Figure 3 Rating of the Performance of Internal Audit Department



Source: Field Survey July, 2015

The survey shows a seemingly good rating for the performance of the internal audit department (IAD). Nine (9) respondents representing 43% each indicated that the internal audit department's performance is excellent and very good respectively while the remaining 14% rated their performance as average. The bar graph Figure 2 shows these ratings.

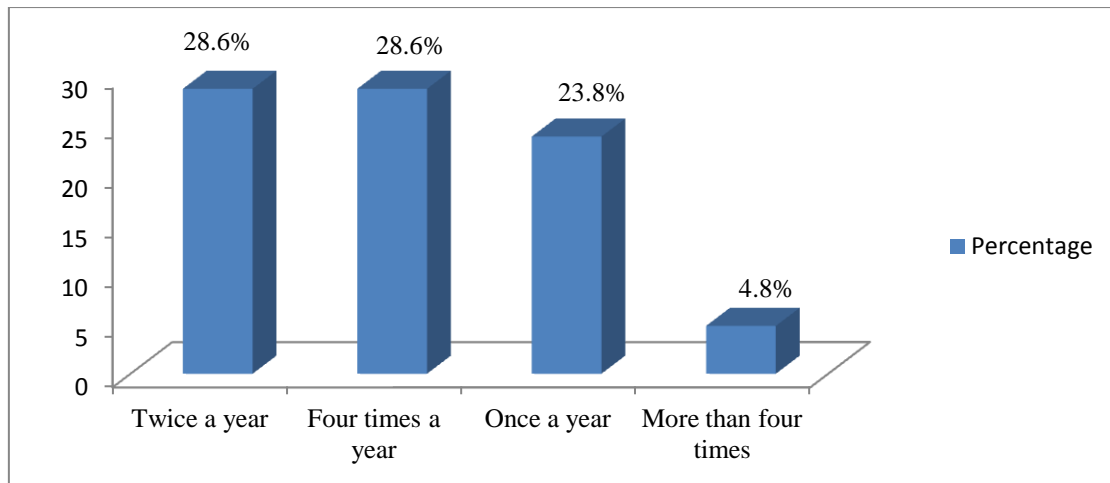
Figure 4: Establishing an Internal Audit Department at the Circle Branch



Source: Field Survey July, 2015

The respondents do not appear to have any hope of having Internal Audit Departments established in branches in which there no Internal Audit Departments. More than half (52.6%) of the respondents to this item did not know whether the Fan Milk Ghana has any plans of establishing an internal audit department at the Circle branch. 31.6% said that the Fan Milk Ghana has no such plans. A small proportion (15.8%) indicated that there are plans of establishing internal audit departments (Figure 3). It was realized from a survey that the branches with the internal audit department had operations moving on smoothly with an increase in the level of production and also revenue.

Figure 5: Frequency of Head Office Internal Auditors visits to Branches



Source: Field Survey July, 2015

Figure 5 depicts the frequency of visits by the head office internal audit staff to the branches. The prevalent number of visitations is twice a year and four times a year with the percentages of 28.6% each, followed by once a year with a percentage of 23.8% and more than four times representing 4.8%. This has helped in the growth of the company.

Table 4 Relationship between Respondents and the Head Office Internal Audit Staff

Response	Frequency	Percent (%)
Cordial	17	81.0
Satisfactory	3	14.3
Not applicable	1	4.8
Total	21	100.0

Source: Field Survey July, 2015

Discerning from the survey results (Table 4), a cordial relationship exists between the Head Office (HO) internal audit staff and the respondents. This represents the highest proportion of 81% of the respondents while a satisfactory relationship forms 14.3% of the respondents. One respondent representing 4.8% indicated that this is not applicable. The current relationship is a fertile ground for the smooth operation of internal auditing in the sales depot.

Table 5 Satisfaction with the Current Internal Audit Arrangement

Response	Frequency	Percent (%)
Yes	20	95.2
No	1	4.8
Total	21	100.0

Source: Survey, May, 2015



Almost all respondents are satisfied with the current internal audit arrangements with the Head Office. Out of the 21 respondents, 20 representing 95.2% said they were satisfied with the internal audit arrangement in which the Head office's internal audit department provides internal audit services to branches. Only one person is dissatisfied with this arrangement. Table 5 depicts these results.

Suggestions for Improvement in the Internal Audit System

Despite the high level of satisfaction with the current internal audit arrangement, a few respondents provided suggestions for improvement of the shady areas of internal audit practices. The following were the responses received.

- An internal auditor should be attached to every branch;
- At least two follow-ups should be made after each audit to ensure that any lapses detected are corrected;
- The internal audit system should be decentralized;
- A staff audit department should be attached to the various branches for a daily review of activities;

Evaluation of Internal Audit Staff

This item requests respondents to evaluate the internal audit division of the sales depot in terms of the sufficiency of the number of staff, appropriate qualification of staff and the relevance of their skills and experience. There is a high degree of agreement that the internal audit department is properly staffed to provide a high quality audit service to the sales depot in Accra.

Table 6: Sufficient Number of Staff

Response	Frequency	Percent (%)
Yes	18	78.3
No	5	21.7
Total	23	100.0

Source: Field Survey July, 2015

From Table 6 it is found that out of the total number of respondents in the survey, 18 (78.3%) believe that the internal audit department has a sufficient number of staff to audit the branches of the Fan Milk Ghana while 5 (21.7%) do not believe that the internal audit department has sufficient number of staff. Therefore the Internal audit staffs at the Head Office of Fan Milk Ghana Limited are adequate to audit the accounts of the respective branches of the company.

Table 7: Appropriately Qualified Staff

Response	Frequency	Percent (%)
Yes	23	100.0
No	0	0
Total	23	100.0

Source: Field Survey July, 2015



All respondents, including the internal audit staff themselves, believe that the internal audit department personnel are appropriately qualified to meet the internal audit needs of the organization (Table 7)

Table 8: Staff with Relevant Skills and Experience

Response	Frequency	Percent (%)
Yes	22	95.7
No	1	4.3
Total	23	100.0

Source: Field Survey July, 2015

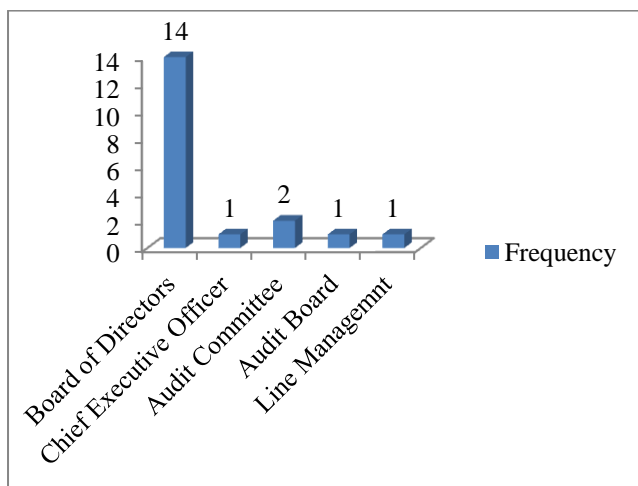
Table 8 shows that twenty-two (22) respondents (95.7%) believe that the staff of the internal audit function have the relevant skills and experience while the remaining 1 respondent (4.3%) does not share this view.

On the whole, there appears to be a high placement of the internal audit staff in terms of their competence in handling the risks to which the sales depots are exposed.

Constraints of the Internal Audit Department

The constraints that seriously impact on the performance of the department have been identified by internal auditors as poor financing, inadequate human resources and lack of equipment. For an effective internal audit system, there must be sufficient funding in relation to the internal audit responsibilities imposed on it by management.

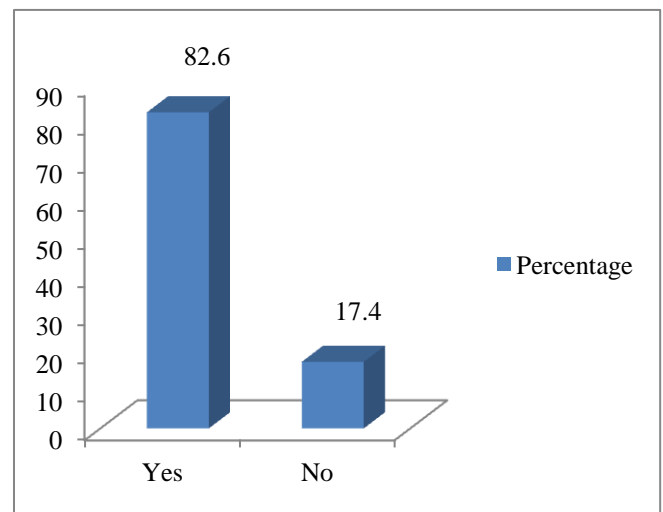
Figure 6: Responsibility for Appointment of Head of Internal Audit Department



Source: Field Survey July, 2015

From Figure 6, it is found that the main body responsible for the appointment of the head of Internal Audit Department is the Board of Directors (BOD) with a total frequency of 14. This is followed by Chief Executive Officer and Audit Committee with 2 each and Audit Board and line Management with 1 each. This is quite a good step towards achieving independence at the Internal Audit Department.

Figure 7: Existence of Audit Committee



Source: Field Survey July, 2015

There is a high agreement on the existence of the Audit Committee. 82.6% have a belief about the existence of the Audit Committee (AC) in their sales depot while the remaining 17.4% do not believe the existence of the Audit Committee.



All respondents believe that the establishment of the Audit Committee will improve upon the independence of the entire internal auditing system of the sales depot. They therefore welcome the idea of having an Audit Committee being established in the sales depot.

Table 9: Body to which Audit Committee is Responsible

Response	Frequency	Percent (%)	
Board of Directors	10	55.6	
Chief Executive Officer		2	11.0
Chairman		1	16.6
Audit Board		5	27.8
Total		18	100.0

Source: Field Survey July, 2015

Table 9 shows that, there is quite fair agreement that the Audit Committee is responsible to the Board of Directors. Ten (10) respondents representing 55.6% of those who responded to this item indicated that the Audit Committee is responsible to the Board Of Directors. About half of this number (27.8%) believes that the Audit Committee responds to the Audit Board. Those who believe that the Audit Committee is responsible to the Chief Executive Officer and Chairman of the Board of Director make up the remaining 16.6%.

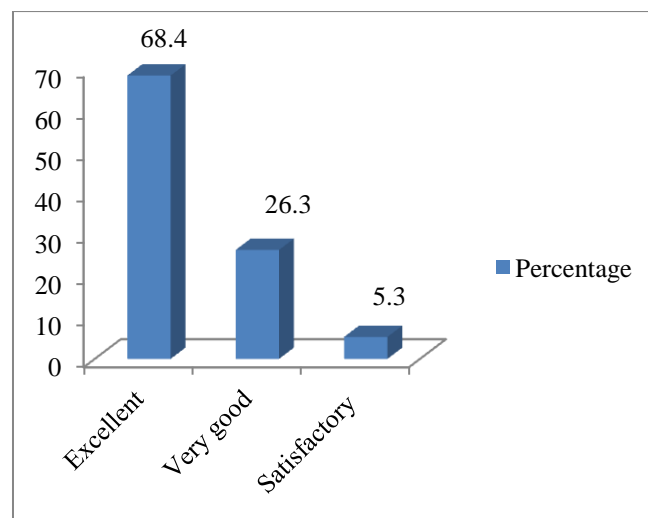
Table 10: Appropriateness of the Composition of the Audit Committee

Response	Frequency	Percent (%)
No Response	5	21.7
Yes	18	78.3
No	0	0
Total 23		100.0

Source: Field Survey July, 2015

From Table 10 above, 78.3% of the respondents believe that the Audit Committees of their sales depot have the right composition of knowledge, experience, and representation to perform its roles in ensuring good corporate governance.

Figure 8: Judgment of Independence



Source: Field Survey July, 2015

Figure 8 shows that there is a high confidence in the independence of the internal audit function in the Fan Milk Ghana system in Accra. About 68.4% and 26.3% of the respondents who responded to this question stated that the independence of the Internal Audit function is excellent and very good respectively. These two responses give a cumulative percentage of 94.7%. The remaining percentage of 5.3% mentioned that the independence of the Internal Audit function is satisfactory.

Table 11: Increased level of objectivity, consistency and business understanding.

Response	Frequency	Percent (%)
Yes	19	100
No	0	0
Total 19	100	

Source: Field Survey July, 2015

As shown in Table 11, nineteen (19) respondents responded to the item. All the 19 respondents answered that the current Internal Audit structure in the Fan Milk Ghana depots promotes objectivity, consistency and business understanding. The responses therefore imply a highly objective Internal Audit function in the institutions.

Table 12: Independence to Choose Transactions and Areas to Audit

Response Frequency Percent (%)

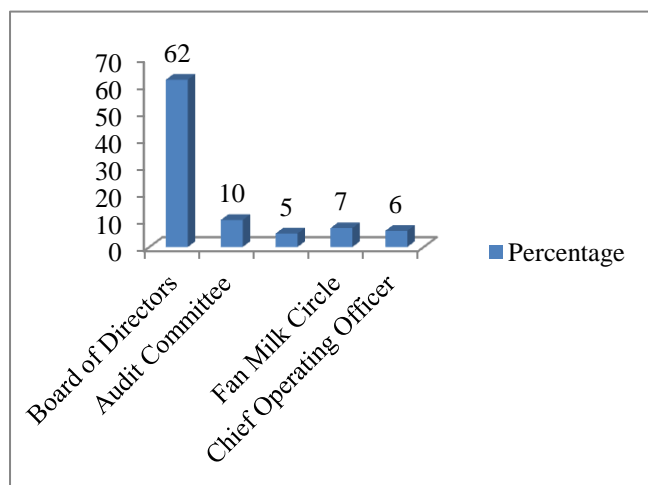
Yes	18	85.7
No	3	14.3

Total 21 100.0

Source: Field Survey July, 2015

There seems to be a high belief by the respondents on the independence of the internal audit function in choosing any transaction or area of interest for audit while performing its duties. Eighteen (18) respondents representing 85.7% believe that the Internal Audit department is free to choose any transaction and area of interest to audit while three (3) representing 14.3% do not believe so (Table 12). The survey responses from the internal auditors indicate their satisfaction of the level of independence of the Internal Audit Department. According to them the Internal Audit Department has the scope to determine its own priorities and activities.

Figure 9: The Body to which Internal Audit Department Reports



Source: Field Survey July, 2015

About sixty-two percent 62% of respondents are of the view that Internal Audit Department reports to the Board of Directors while about 10% each think that the department reports to the Audit Committee, 5% believe that the IAD reports to both the Chief Executive Officer and the Audit

committee, 7% of them express that view that the Internal Audit Department report to Fan Milk Ghana of Circle while the remaining 6% of the respondent said they report to the chief operating officer. This implies that the survey indicates a good positioning of the internal audit department in terms of independence. Reporting internal audit findings to a body as high as the Board of Directors and its representative Audit Committee ensures independence of the department. Hence, there are no factors that impede the internal audit function from promoting good corporate governance in the organization.

Table 13: Existence of Conflict of Interest

Response Frequency Percent (%)

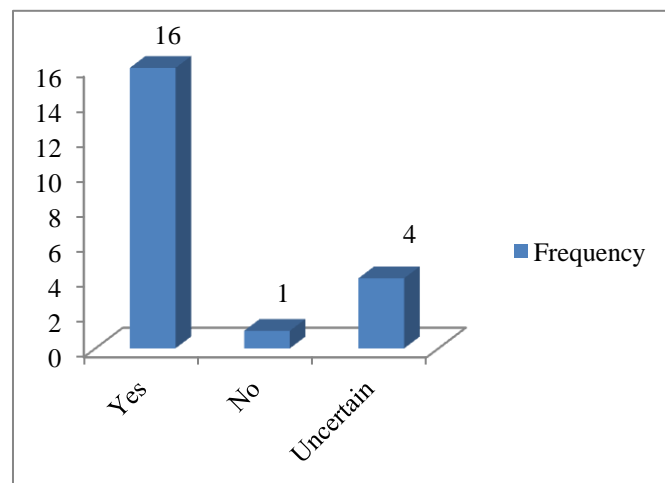
Yes	2	8.7
No	21	91.3

Total 23 100.0

Source: Field Survey July, 2015

Table 13 indicates that 21 of the respondents representing 91.3% believe that there is no conflict of interest situation at the Internal Audit Department while the remaining 2 representing 8.7% of the respondents agreed that there is a conflict of interest. Those who answered yes however did not state the reasons for their belief of the existence of conflict of interest.

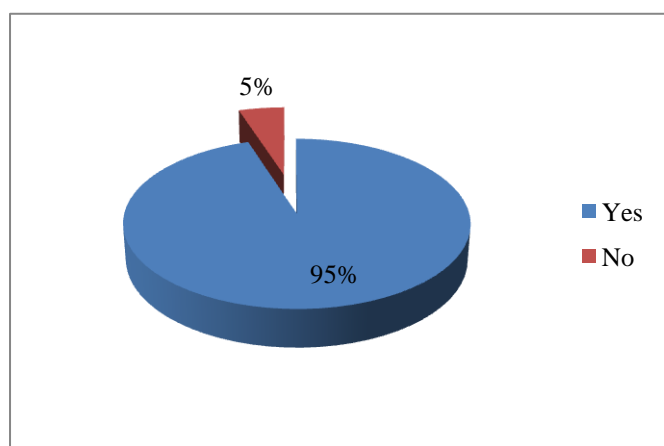
Figure 10: Do the internal Audit department prepare audit plan and program.



Source: Field Survey July, 2015

There is a high belief among respondents that the internal audit department prepares audit plans and programs. In fact, all respondents are of the view that the internal audit department prepares audit plans and programs. As depicted in Figure 9, sixteen (16) respondents, representing a 76.10%, stated that the Internal Audit function prepares plans and programs specific to the branch while one respondent stated that such plans and programs do not exist. Some respondents 4, representing a 19.05%, do not know whether such plans and programs exist.

Figure 11: Existence of Specific Plans and Programs for each Department or Function



Source: Field Survey July, 2015

From the perspective of the internal auditors, the survey indicates that the internal auditors in the Fan Milk Ghana depots in Accra prepare audit plans and programs for every activity to be undertaken in the department. It also came to light that separate audit programs and questionnaire exist for each department or function in the organization.

Table 14: Approval for Programs

Response	Frequency	Percent (%)
Yes	20	87
No	3	13
Total	23	100

Source: Field Survey July, 2015

There is quite a good agreement that internal auditors in Fan Milk Ghana depots seek for approval of audit programs before they are executed. Seeking approval for plans and

programs before executing them gives them credibility and authenticity. This is confirmed from the result of table 14, where 87% of the respondents believe that approval for programs are sought while the remaining 13% do not believe so.

Table 15: Proportion of Type of Audit to Planned Audit Work

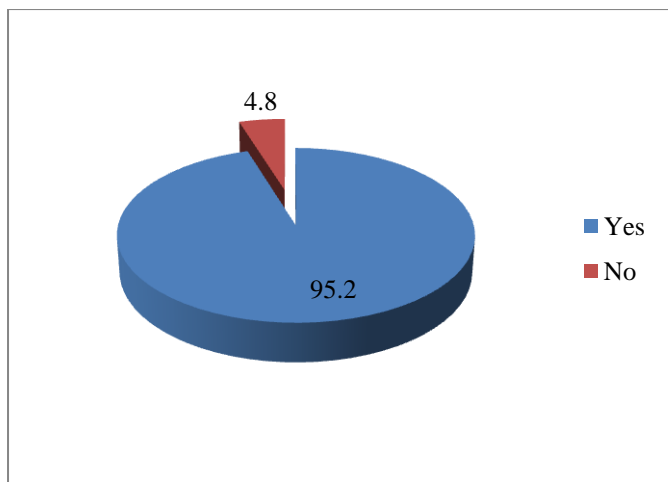
Type of Audit	Percentage (%)
Audit for public financial statements	5
Audit of the management information systems	15
Operational audit	20
Compliance audit	20
Fraud investigate	20
Risk assessment	15
Others	10
Total	100

Source: Field Survey July, 2015

Table 15 depicts the percentages of planned audit work that each type of audit takes. From the table, operational audit, compliance audit and fraud investigation are the type of audit most frequently done by the Internal Audit Department, forming 20% each. These are followed closely by audit of the management information systems and risk assessment, forming 15% each. The least performed

type of audit done by internal auditors in the Fan Milk Ghana depots is the audit for public financial statements (5%).

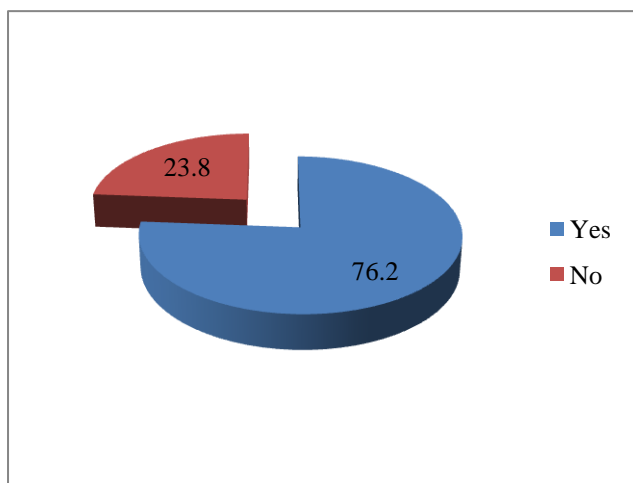
Figure 12: Scope of Internal Audit Department to Determine its Priorities and Activities



Source: Field Survey July, 2015

Figure 12 shows that 95.2% of respondents indicated that the Internal Audit department has the autonomy to determine its own priorities and activities while the remaining 4.8% indicated otherwise. This shows that the Internal Audit Department is highly independent in the choice of its priorities and activities.

Figure 13: Existence of Internal Audit Charter



Source: Field Survey July, 2015

About 76.2% of respondents agree that there is Internal Audit charter in the Fan Milk Ghana depots while the 4.8% do not agree to this (Figure 13). This is an indication that there is a strong internal auditing function and that access to information, records, employees etc. is quite impressive. All two respondents who responded to this item welcome the idea of instituting an Internal Audit charter in the Fan Milk Ghana depots.

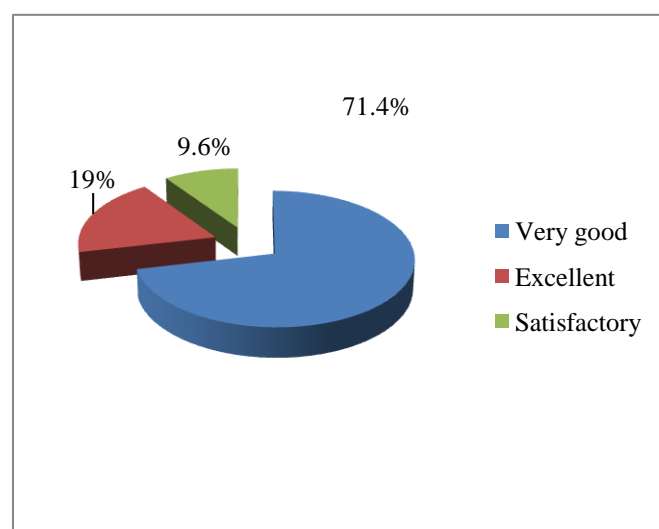
Table 16: Maintenance of Program of Continuing Professional Education

Response	Frequency	Percent (%)
Yes	18	85.7
No	3	14.3
Total 21	100.0	

Source: Field Survey July, 2015

The survey results (in Table 16) show that most sales depot have programs of continuing professional education. About 85.7% of respondents have a belief of the existence of the program while the remaining 14.3% do not believe. The existence of such programs enhances the competence of the internal audit staff in the Fan Milk Ghana depots. The internal auditors have admitted to the sales depot maintaining program of continuous professional education for the IA staff. This allows them to be abreast with current developments in the field of internal auditing and thus sharpening their skills in internal auditing.

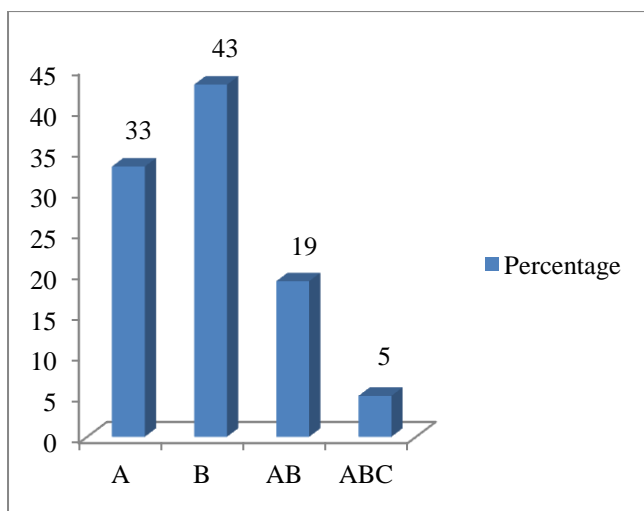
Figure 14: Judgement of Quality of Work of Internal Auditors



Source: Field Survey July, 2015

Respondents have rated the performance of the internal auditors highly as per the research data. Figure 14 above depicts that about 71.4% of respondents judge the quality of work done as very good, 19.0% as excellent and 9.6% as satisfactory.

Figure 15: Competences of Internal Audit Staffs



From Figure 15, it can be said that the 33% of the respondents judge the competence of the internal audit staff based on the quality and completeness of audit work papers (A); 43% on the basis of clarity and comprehensiveness of the internal audit reports (B); 19% on the basis of quality and completeness of audit work papers and clarity and comprehensiveness of the internal audit reports (A,B); and 5% on the basis of quality and completeness of audit work papers and clarity and comprehensiveness of the internal audit reports as well as other factors (A,B,C). Timeliness of the internal audit activeness and reports is the factor stated for the other factors considered in judging the competence of the internal audit staff.

Source: Field Survey July, 2015

Table 17: Professional Standards used by Internal Audit Department

Response	Frequency	Percent (%)
Standards for Professional Practice of Internal Audit	19	82.6
Statements of Auditing Standards	0	0
Both Standards for Professional Practice of Internal Audit and Statements of Auditing Standards	3	13
Government laws	0	0
Others	1	4.4
Total 23	100.0	

Source: Field Survey July, 2015

There is quite a strong belief of the use of professional standards in internal auditing by the Internal Audit Department of the Fan Milk Ghana depots of Accra. In fact, all respondents believe that the Internal Audit Departments use professional standards on internal auditing. Table 17 indicates that the main professional standards used by the Internal Audit Departments in the Fan Milk Ghana financial department are the Standards for Professional Practice of Internal Audit by the Institute of Internal Auditors (IIA). Of the 23 respondents, 19 representing 82.6% are of the view that the Standards for Professional Practice of Internal Audit

are applied to internal auditing activities and the remaining 3 representing 13% believe that both Standards for Professional Practice.

Table 18: Frequency of Communication of Internal Audit Findings

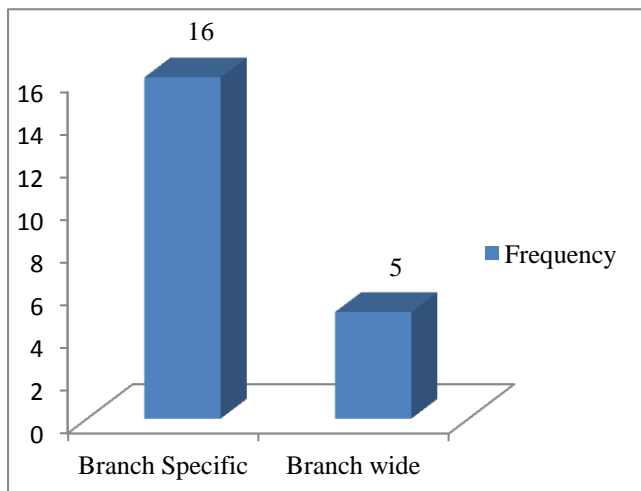
Response	Frequency	Percent (%)
Once a year	1	4.8

Twice a year	3	14.3
Three times a year	0	0
Four times a year	3	14.3
Others	8	38.1
Non-response	6	28.6
Total 21	100.0	

Source: Field Survey July, 2015

This was quite a poorly responded item. Table 18 indicates that about 28.6% of respondents failed to respond to it. Of those who responded, 3 each (14.3%) stated that communication of internal audit findings is done twice a year and four times a year respectively, 1 (4.8%) stated that it is done once a year and none stated that the communication is done thrice a year. Some of the other frequencies of communication which forms 38% are presented in Table 18.

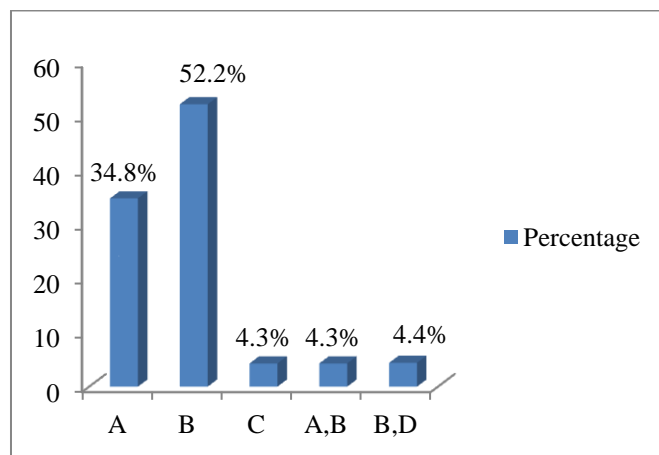
Figure 16: Content of Internal Audit Findings Communicated



Source: Field Survey July, 2015

Largely, internal audit findings sent to branches are those that relate to the branches specifically. Figure 15 indicates that 16 of the respondents stated that they receive Internal Audit findings that are specific to their branches while 5 of them stated that they receive findings on the whole company even when they do not relate to the branches.

Figure 17: Recipients of Branch Internal Audit Reports



Source: Field Survey July, 2015

Branch Managers (B) are the main recipients of internal audit reports, forming 52.2% of the respondents. This is followed closely by officials who have both the responsibility and authority to implement suggested changes (A) with a proportion of 34.8%. Those who mentioned that reports are sent exclusively to a special branch audit committee (C) form 4.3%. The survey, however, shows that sometimes internal audit reports are sent to more than one recipient at a time. The combination of recipients observed from the study include both officials who have the responsibility and authority to implement suggested changes and branch managers (A, B) i.e. 4.3%; and branch managers and officers affected by the report (B, D) i.e. 4.4%. This is depicted in Figure 17.

Content of Internal Audit Reports

Internal audit reports have been rated highly on the grounds that they contain recommendations for remedial action. There is a hundred percent (100%) agreement among respondents on this item that recommendations for remedial action are a component of Internal Audit report. The reports also contain a statement on the status of all audits stated on the internal audit programs. Statement on the status of audit work-in-progress provides a sharp view of the extent to which the audit program has been executed. The survey also indicates that the reports also contain summaries and conclusions of all audits concluded during the period covered by the reports.

Table 19: Opportunity to Respond to Internal Audit Findings

Response Frequency	Percent (%)
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Yes	20	95.2
No	1	4.8
Total	21	100.0

The results in the table above (Table 4.22) show that most officers in the sales depot affected by Internal Audit findings have the opportunity to respond to the findings, whether negative or positive. Only one person thinks that the officers do not have the chance of answering Internal Audit queries.

Source: Field Survey July, 2015

Table 20: Person to whom Head of Internal Audit Department reports to Periodically.

Report Response	Frequency	Percent (%)
No response	4	19
Board of Directors	10	47.6
Executive Officer	1	4.8
Chief Executive Officer	2	9.5
Audit Board	1	4.8
Audit Committee	2	9.5
Others	1	4.8
Total	21	100.0

Source: Field Survey July, 2015

Table 20 indicates that a significant proportion (47.6%) of heads of the Internal Audit Department in the Fan Milk Ghana depots in Accra reports to the Board of Directors (BOD). Those who report to the Chief Executive Officer (CEO) and/or its representative Audit Committee form the next largest proportion of 19% (9.5% each). The study also indicates that the head of internal audit department may however have a dual reporting relationship with both the Board Of Directors and the Chief Executive Officer (4.8%).

Table 21: Corrective Measures on Internal Audit Findings

Response	Frequency	Percent (%)
Yes	20	95.2
No	1	4.8
Total	21	100.0

Source: Survey July, 2015

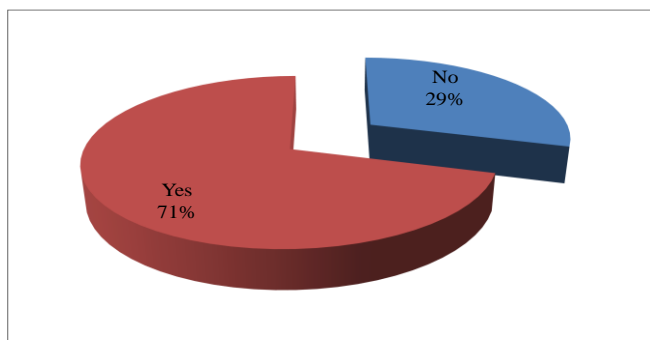
The survey results show that there is wide belief among respondents that corrective actions are taken by management and staff of the sales depot on adverse Internal Audit findings. Table 21 shows that 20 respondents representing 95.2% believe that corrective actions are taken on adverse findings. This implies that the Internal Audit function makes follow-ups on the recommendations it makes on adverse findings which indicates a high commitment to ensuring adherence to internal control by the staff of the Internal Audit function.

Consideration of Internal Audit Reports by Management

There seems to be quite a disregard for the reports and results of the internal audit department (IAD). One of the internal auditors has complained that the reports produced by the Internal Audit Department are not given prompt and

independent consideration by the body to which they report. This affects the timely implementation of the internal audit findings.

Figure 18: Power to Impose Punishment and Penalties



Source: Field Survey July, 2015

Figure 18 above depicts that 71% of the respondents believe that the internal audit department has the power to impose punishment and penalties for any serious breaches on the internal controls. This is an indication of a well empowered Internal Audit system.

Research questions for the development bank

RQ1: Is the control environment of the internal control system of the banking industry in Ghana effective?

RQ2: Is the monitoring component of the internal control system of the banking industry in Ghana effective?

Results and discussions

The control environment and the monitoring activities work in tandem to reinforce the whole system of control in an organization. The control environment is the foundation of all the control components, the Board and senior management should be setting the right tone at the top, giving direction to the rest of the organization on the importance of effective internal controls. The effectiveness of risk assessment, component, control activities component, information and communication component, and the monitoring component will all work to the degree of effectiveness of the control environment. The monitoring component of the internal control system establishes whether controls are present and functioning as intended and if not control deficiencies are reported to the appropriate personnel responsible for such controls. The monitoring activities component ensures that the whole process of internal controls is fluid and not short-circuited. A properly

designed and implemented monitoring process will help the organization identify and correct internal control problems on a timely basis, thus ensuring the continuous functioning of the internal control system (Grant Thornton, 2009).

Reliability Statistics

Based on Standardized Items N of Items .823 .830 10

Monitoring activities

Control environment

Internal control systems

Mean

S.D

1. Management demonstrate commitment to integrity and ethical values

4.72

0.59

2. Top managements" support for integrity and ethical values

4.83

0.38

3. Codified standards of conduct to guide behaviour, activities and decisions

4.83

0.54

4. Board of directors demonstrate independence

4.41

0.82

5. Roles and responsibilities are clearly stated for all employees

4.66

0.61

6. Management establishes, with board oversight, structures, reporting lines and appropriate authorities and responsibilities in the pursuit of objectives

4.69



Table with 2 columns: Item description and Score. Items include organizational chart, human resource function, internal control responsibilities, and internal audit unit evaluations.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

Introduction

This chapter contains the summary of the findings from the analysis made in chapter four, conclusion and recommendations for improvements in the internal audit activities in the Development bank and Fan Milk Ghana depots in Accra.

Summary

This study evaluated the control environment and monitoring activities components of Internal Control Systems of Ghanaian Banks using COSO's principles and attributes of assessing the effectiveness of internal control systems. A five point Likert scale was used to measure respondent's knowledge and perception of internal controls and the bank's internal control system effectiveness.



presented in the form of means and standard deviations for each question and each section of the questionnaire. The study found out that, strong controls exist in the control environment and monitoring activities components of the internal control systems of banks in Ghana. The two components were highly rated by respondents with average means of 4.72 and 4.66 respectively. The study recommended that boards of banks in Ghana should not be complacent about the findings but should work hard to ensure continuous ongoing and separate internal control monitoring to ascertain that controls really exist and are functioning properly.

The study was conducted to evaluate the extent to which the current and planned internal audit function is positioned to contribute towards one of the major objectives of ascertaining good corporate governance in the development bank and Fan Milk Ghana depots for accountability and service improvement. From the study conducted, the findings of the analysis made in the fourth chapter can be summarized as follows.

- Most of the sales depots have internal audit departments at the Head Offices. In Accra, only two sales depots have internal audit departments.
- The internal auditing model used by the sales depot is the centralized model. In the sales depots that have Internal Audit Department, the Head Office audit department co-ordinates all the branches' audit department activities. Branches basically use head office audit resources for specific engagements.
- Internal Auditors perform their audit activities on the basis of the internal audit charter. The sales depot staffs have a very high respect for the performance of the internal audit activities in Accra.
- Mainly, Head Office of internal audit staff in sales depot in which there are no Internal Audit Departments at the branches visit the branches a maximum of four times a year. There is quite a cordial relationship between the Head Office internal audit staff and the officers at the sales depot in Accra. The department is constrained in the areas of finance, human resources, and equipment.
- There is quite a good agreement among the non-audit staff of Fan Milk Ghana on the sufficiency of the numerical strength of the internal audit staff. It is believed these staffs have the relevant qualification; skills and experience to enable them handle Internal Audit functions competently.
- The head of the Internal Audit Department is appointed more frequently by the Board of Directors whiles the other Internal Audit Department staffs are appointed by the Human Resource (HR) Manager.
- There is an appreciable belief of the existence of Audit Committee (AC) in sales depots that have branches in Accra. The committees are responsible to the Board of Directors and believed to have the right mix of knowledge, experience and representation of major stakeholders to conduct its oversight responsibilities.
- The independence of the internal audit department has been given quite a good rating by the Fan Milk Ghana staff whiles current Internal audit structures in the organization promotes objectivity, consistency and business understanding which further enhance its independence the department mainly report to its board of directors and representatives.
- Internal auditors have a high degree of access (91.0%) to audit evidences in all forms. There exists a rule that ensures that internal auditors in the sales depot cannot audit operations for which they have previous responsibility. However, some internal auditors have admitted to breaking this rule when asked by management to do so. It appears that there are audit plans and programs for each department of function within the Fan Milk Ghana depots. Approval is sought from management before the execution of the plans and programs. Operational audits, compliance audits and fraud investigations are the type of audit most frequently done by the Internal Audit Department. Internal audit charter exists in the Fan Milk Ghana depots. This empowers the Internal Audit Department to determine its own priorities and activities. Most sales depot have programs of continuing professional education under which internal audit staff's skills are developed. The work done by



internal auditors has been judged to be very good which is based on the clarity and comprehensiveness of the internal audit reports and also on the quality and completeness of audit working papers.

- Internal auditors are quite satisfied with their salary levels this is confirmed by non-internal audit personnel at the sales depot.
- Professional standards are highly used in the conduct of internal audit activities in the sales depot though an internal audit staff has admitted to non-compliance with the standards on occasions. The standards mainly are the Standards for the Professional Practice of Internal Audit by the Institute of Internal Audit
- There are variations in the frequency of internal audit reports. The reports sent to branches are those that relate to the branches. Branch managers are the main recipients of internal audit reports (52.2%) and also responsible for answering any queries in the reports.
- Corrective measures are often taken on adverse internal audit findings. Follow-ups are made by internal audit staff on the recommendations they make to management on audit findings. The Internal Audit Department has the power to impose punishment and penalties on staff for misconducts whiles the outsourcing of internal audit activities is not a known practice in the Fan Milk Ghana depots in Accra.

CONCLUSION

Corruption in the public sector:

Hampers the efficiency of public services undermines confidence in public institutions and increases the cost of public transactions. Integrity is essential for building strong institutions resistance to corruption.

Good governance is necessary condition for good infrastructure delivery including planning, budgeting, project assessment/ evaluation, transparency, accountability & regulation.

Maintaining fiscal discipline, (re-) allocating resources to where they are most value and achieving greater efficiency in government operations have a crucial impact on overall national economic performance?

ENSURING PUBLIC MONEY IS USED TO BENEFIT CITIZENS

Accountable governance refers to the collective responsibility of officials to preserve the public's trust in government by delivering on policy outcomes and safeguarding taxpayer funds. Accountable governance involves systems and coordinated actions through which the public sector ensures the effectiveness, efficiency and economy of public expenditure. It relies on tools that promote value-for-money, integrity and transparency in government, such as external control, internal control, sanctions, and enforcement. These tools create an enabling environment for greater accountability and improved governance.

Accountable governance is not the responsibility of one institution, but many entities and individuals across all branches of government – the legislature, the judiciary and the executive. This includes supreme audit institutions (SAIs), internal control bodies, the Centre of Government, line ministries, law enforcement, and prosecutorial bodies, to name a few.

Internal control processes are used to ensure that operations are efficient, effective and in line with established laws.

External audit functions, or Supreme Audit Institutions, oversee how government spend public money and assesses whether spending provides value to citizens.

Effective internal control processes and independent external audit institutions are critical to making sure that governments are operating in an optimal way, without waste or fraud, to deliver the policies and programmes that benefit citizens.

Engaged employees are those who are committed to their organisation's goals and values, motivated to contribute to organisational success, and are able at the same time to enhance their own sense of well-being. Engaged employees are critical to successfully manage change in the public administration, to enhance service orientation and to ensure customer satisfaction.



Empirical evidence links the related concepts of employee engagement, organisational commitment and staff motivation to better organisational outcomes including efficiency, productivity, public sector innovation, citizen trust in public sector institutions, and employee trust in organisational leadership. Employee engagement strengthens organisational capacity as it is positively related to individual performance and employee retention.

This unique event will appeal to public officials who are charged with motivating employees to provide the highest level of customer-oriented service, promoting productivity in the workforce, inspiring innovation, enhancing workplace well-being, establishing the public administration as a learning organisation and improving transformational leadership in times of organisational change.

Understanding citizens' behaviour is helping governments and regulators design better policies.

Regulatory policy is about achieving government's objectives through the use of regulations, laws, and other instruments to deliver better economic and social outcomes and thus enhance the life of citizens and business

From the results of the study, the researcher therefore conclude base on the objectives of the study such as.

- The internal audit staff conducts their audits in quite an orderly manner. These activities are performed in accordance with the audit charter, plans and programs the approval of which is sought before implementation. Internal Audit work performed are geared towards ensuring operational efficiency; ensuring compliance with Fan Milk Ghana policies; and fraud investigation. The Internal Audit Department, in line with the AS 1311, conducts ongoing reviews of its performance on a periodic basis.
- In achieving the second specific objective of the study, the factors that impede the internal audit function from performing its role in enhancing good governance at Fan Milk industry are lack of finance, human resources, and equipment. Though the internal auditing services at the sales depot in Accra are performed in accordance with some standards, it is not exactly in accordance with the Standards for the Practice of Internal Auditing by Institute of Internal Audit as recommended by the

IIA Code of Ethics. In instances where assignments given by management do not purely conform to the standards, noncompliance with the standards is observed.

- In order to achieve corporate governance at Fan Milk Industry according to the findings the internal audit function ensure that Internal audit reports submitted to management and other recipients are quite accurate, objective, clear, complete and timely. The reports are largely presented in line with the Institute of Internal Audit standards of practice while prompt attention is given to the reports of the Internal Audit findings by management and also persons who are affected by the internal audit findings have the opportunity of reacting to the findings.

RECOMMENDATIONS

The study results indicate that, strong controls exist in the control environment and monitoring activities components of the internal control systems of banks in Ghana. The two components were highly rated by respondents with average means of 4.72 and 4.66 respectively. The study particularly revealed a very strong tone at the top, indicating the board of directors commitment to integrity and ethical values. This is in the right direction in curbing what Roger Steare called a "systemic deficit in ethical values" in the banking industry. In the wake of the fraud scandal at Société Générale in 2008, Roger Steare, professor of organisational ethics at Cass Business School in London asserted that "This latest scandal, on top of the massive losses in credit markets, and the ongoing incidence of mis-selling to retail customers, indicates that there is a systemic deficit in ethical values within the banking industry" (Steare, 2008). Perhaps Ghanaian banks are learning from the collapse of Ghana Co-operative Bank and Bank for Housing and Construction and the experiences of their counterparts in the western world. What has happened in the global banking industry over the years may be the result of "illusions of internal controls". Banks are secretive and until a scandal hits no one really knows the extent of internal control problems that exist in banks and inactive boards of directors maybe under the impressions of false assurance of internal control effectiveness. This is even more likely in the banking industry with its rapidly changing business model. We recommend that boards of banks in Ghana should be very active and ensure continuous ongoing and separate internal



control monitoring to ascertain that controls really exist and are functioning properly. This study looked at only two of the five internal control components, we again recommend further research that will investigate internal control effectiveness involving all control components

The following recommendations are made for improvement in the performance of internal auditing services in the Fan Milk Ghana depots in Accra and the country as a whole.

New challenges that are faced by internal auditors in the Fan Milk Ghana depots require them to acquire the necessary skills and competencies on a continuous basis. This makes it necessary for them to place them on a learning path so that they could update themselves with new developments. The continuing professional education programs for internal audit staff at the sales depot should be given more attention so as to increase their academic and professional qualifications, experience and skills. This will promote the competency of the audit staff which in turn determines their efficiency in designing a more systematic and disciplined approach to the evaluation and improvement of the management and control of the risk to which the sales depot are exposed and the entire corporate governance process.

- Internal Audit Departments should be established in every branch of the Fan Milk Ghana depots or at least an internal audit staff should be attached to the branches. Though this may bring in additional cost by way of salary and maintenance of audit resources, it will improve the risk management and control of the sales depot and also make the internal audit staff more responsive to the audit issues of the sales depot and attend to the auditing activities more swiftly.
- The management of the sales depot should ensure strict adherence to the Standards for the Professional Practice of Internal Auditing by the Institute of Internal Auditors. The internal audit charter of the sales depot should have a provision that requires a disclosure of noncompliance with the internal auditing standards. This will go a long way to promote quality audit work that is systematic, objective and done in accordance with evidence.
- The internal audit departments both at the Headquarters and other branches should be given more autonomy to choose transactions and area of

the Fan Milk Ghana for audit. The staff should be allowed a complete and unrestricted access to all forms of audit evidence including management representations, employees, assets, records and all parts of the organization. The internal audit department should have adequate funding and provision of resources so as to meet the demands of modern auditing. The funds allocated to the department should be in relation to the audit responsibilities that are assigned. This will enable the IAD to acquire the necessary equipment as well as motivate and developing the skills of its staff in a way that positions them to conduct quality audit. The use of appropriate technology in auditing will also be enhanced. It is my greatest hope that if these recommendations are implemented, the internal auditing function in the Fan Milk Ghana depots will be well placed in a position that enables it to perform its functions effectively.

The brief analysis here proposed has the objective to attract the attention towards the multi-perspective utility of the regulation within the banking system. This phenomenon takes place for different reasons. First, the presence of formal rules within the bank, especially considering the complexity of the financial sector, contributes to the perception of the importance of informative instruments for the continuous monitoring of the financial and economical balance of the organization.

At the same time, the authorities role emerges to promote the autonomous and creative spirit when applying the rules. This happens especially considering the necessity of adapting the prevention of risks with the special characters of the organization and its economic activity.

The rules system is, in fact, fundamental for the social order; however, this balance can be achieved in a different combination of internal and external authorities, a self ruling, promoted by the competitive processes of the functioning market place.

It is from this perspective that internal control systems are considered the product of deep reflection of governance: it represents the bases of a wide evaluation for the single operative instruments and for the general culture of the risk control. The principal figures responsible for the internal control systems know the consequences that could manifest in case the critical aspects associated with risks happen.



The selection of the bank on the bases of the internal control systems emerges as a common behavior of the customer or the business partner. They are aware of the value to attribute to the control culture in the wide meaning of institutional and managerial virtues. From this solid starting point develops conditions for compliance and managerial best practices as integral institutional guidelines and leading competitive factors.

NB:

A few authors underlie the necessity to promote a new 'capitalistic ethic' and to face the governance and control systems of organizations and institutions that work within the capital markets.

Internal control systems are considered the product of deep reflection of governance: it represents the bases of a wide evaluation for the single operative instruments and for the general culture of the risk control.

This contribution intends to bring out the role of the central institutions in the creation of the flexibility and the necessary environment to develop control instruments oriented towards the prevention and management of risk.

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AGRICULTURAL DEVELOPMENT BANK

APPENDIX: A

QUESTIONNAIR

WEST COAST UNIVERSITY – PANAMA

With CALIFORNIA UNIVERSITY -FCE

This questionnaire is designed for academic purposes and the success of this study depends on your co-operation and responses will be located with utmost confidentiality. Please provide answers to the questions below either by ticking or writing in the space provided.

1. Sex: Male Female
2. Rank/Position:.....
3. How many branches of the Bank are worked?
- a. All b. Few c. None
4. How many workers do you have in the internal control department?
.....
5. What are their qualification and experience level in the internal control department?

Qualification	Number of staff	Years of experience
Masters		
Professionals		
First Degree		
Higher National Diploma		

6. Do you have knowledge on internal controls?
a. Yes b. No
7. Kindly indicate or list the Internal Controls mechanisms of your bank.



8. Who issues such Internal Controls?

Table with 2 columns: Types of Control, Supervision of Control

9. Are regular audits and spot checks conducted to ensure compliance in day to day operations?

- a. Yes b. No

10. Have procedures been established to identify and resolve new and unforeseen accounting problems in the accounting principles manual?

- a. Yes b. No

11. Is the function of authorization, checking and approval performed by one person?

- a. Yes b. No

12. Does the internal control system for accounting and financial reporting include specific procedures to reduce the risk of errors and fraud in your bank?

13. What is the aim of establishing the Internal Control department?

14. Do internal control activities for accounting and financial reporting include procedures to protect assets (risk of negligence, errors and internal or external fraud)?

15. Do you have controls over investments?

- a. Yes b. No

16. What are the controls for granting of loans and overdraft?

17. Do you have independence in relating to your work?

- a. Yes b. No

18. Are you motivated so as to work more efficiently?

- a. Yes b. No



19. Suggestion to improve Internal Control systems in your bank.
.....
.....

FAN MILK INDUSTRY

APPENDIX A

QUESTIONNAIRE FOR MANAGERS, ACCOUNTANTS/OPERATIONS OFFICERS, DRIVERS AND OTHERS DEPARTMENT OF ACCOUNTING

This is a Questionnaire On The Research Topic **The Impacts Of Internal Audit On The Financial Performance Of Fan Milk Ghana Limited**. This research is strictly for academic purposes and I pledge to treat any information provided on this questionnaire with strict confidentiality. Your responses to this questionnaire would be much appreciated and would help me achieve the research objective. Thank you. Please provide

answers to the questions that follow by ticking [] or filling in the gaps as appropriate.

SECTION A – PERSONAL INFORMATION

1. Position of respondent in organization

2. How long have you worked at Fan milk Ghana ltd?

SECTION B – INTERNAL AUDIT DEPARTMENT

3. Does Fan Milk Ghana have internal audit department? Yes [] No []

4. If no, will you prefer an internal audit department in your branch? Yes [] No []

5. Indicate which internal auditing model operates in the Fan Milk Ghana.

i. Only the Head Office has a structured internal audit department, and it carries out auditing activities for all branches (centralized model).

Yes [] No []

ii. A new branch is purposely established to perform auditing activities for the whole company (delegation model).

Yes [] No []

iii. Audit departments are established in two or more branches of the company (widespread). Yes [] No []

iv. Others (please specify).....

6. Do branches use Head Office audit resources for specific engagements (IT auditing, fraud auditing, environmental auditing etc)? Yes [] No []



7. How will you rate the performance of the internal audit department with regards to the risk exposure of the Fan Milk Ghana? Tick(√)

- | | | | |
|----------------|-----|--------------------------|-----------------------------|
| Excellent | Yes | <input type="checkbox"/> | No <input type="checkbox"/> |
| Very good | Yes | <input type="checkbox"/> | No <input type="checkbox"/> |
| Satisfactory | Yes | <input type="checkbox"/> | No <input type="checkbox"/> |
| Unsatisfactory | Yes | <input type="checkbox"/> | No <input type="checkbox"/> |

8. Do you believe that the audit committee has the right composition of knowledge, experience, and representation to perform its roles? Yes No

SECTION C – INDEPENDENCE

9. How will you judge the independence of the internal audit department? Tick(√)

- | | | | |
|----------------|-----|--------------------------|-----------------------------|
| Excellent | Yes | <input type="checkbox"/> | No <input type="checkbox"/> |
| Very good | Yes | <input type="checkbox"/> | No <input type="checkbox"/> |
| Satisfactory | Yes | <input type="checkbox"/> | No <input type="checkbox"/> |
| Unsatisfactory | Yes | <input type="checkbox"/> | No <input type="checkbox"/> |

10. Do you believe that the current structure of internal audit promotes objectivity, consistency and business understanding? Yes No

11. While the audit function performs its duty, do you believe that, it is free to choose any transaction or area of interest for audit? Yes No

12. To whom does the head of internal audit department periodically report? Please indicate the frequency. Tick(√)

- | | | | |
|-------------------------|-----|--------------------------|-----------------------------|
| Board of Directors | Yes | <input type="checkbox"/> | No <input type="checkbox"/> |
| Chief Executive Officer | Yes | <input type="checkbox"/> | No <input type="checkbox"/> |
| Chairman of the BOD | Yes | <input type="checkbox"/> | No <input type="checkbox"/> |
| Audit Board | Yes | <input type="checkbox"/> | No <input type="checkbox"/> |
| Audit Committee | Yes | <input type="checkbox"/> | No <input type="checkbox"/> |
| Line Management | Yes | <input type="checkbox"/> | No <input type="checkbox"/> |

Others (please specify):



13. Does the internal audit staff have access to all levels of the organization?

Yes No

14. Do you believe there is a conflict of interest situation at the internal audit department? Yes No

15. If yes, give reasons

SECTION D – AUDIT PLAN AND PROGRAMME

16. Does internal audit department prepare any audit plans and/or programs? Yes No

17. If yes, are there specific plans and/or programs for your branch and other

branches? Yes No Don't know

18. Do you think approval is sought and received of audit programs before being executed? Yes No

19. Does the internal audit department have the scope to determine its own priorities and activities? Yes No

20. Does the Fan Milk Ghana have an internal audit charter (i.e. guidelines for internal audit procedures)? Yes
No

21. If no, do you think that Fan Milk Ghana needs to have it? Yes No

SECTION E – COMPETENCE OF INTERNAL AUDIT STAFF

22. Does the Fan Milk Ghana maintain a program of continuing professional education for its internal audit staff? Yes No

23. How will you judge the quality of work done by internal audit staff? Tick(√)

Excellent Yes No

Very good Yes No

Satisfactory Yes No

Unsatisfactory Yes No

Very poor Yes No

24. On what basis do you judge the competence of the internal audit staff? Tick(√)

i. Quality and completeness of audit work papers Yes No

ii. Clarity and comprehensiveness of the internal audit reports

Yes No



iii. Others (specify):.....

SECTION F – REPORTING AND FOLLOW-UPS

25. How often are reports of internal audit findings communicated to you?

.....

26. Are reports received from internal audit function on companywide internal audit findings or findings specific to the Spintex branch only?

Yes [] No []

27. Do internal audit reports include recommendations for remedial action?

Yes [] No []

28. Who has the responsibility of responding to internal audit queries? Tick (√)

Branch Manager []

Special Branch Committee []

Officer affected by report []

Others (please specify):

.....

Thank you very much for answering the questions!!!

APPENDIX B

QUESTIONNAIRE FOR INTERNAL AUDITORS

DEPARTMENT OF ACCOUNTING



This Is Questionnaire On The Research Topic The Impact Of Internal Auditing On The Financial Performance Of Fan Milk Ghana. The Research Is Strictly For Academic Purposes And I Pledge To Treat Any Information Provided On This Questionnaire With Strict Confidentiality.

Your Responses To This Questionnaire Would Be Much Appreciated And Would Also Help Me Achieve The Research Objective. Thank You.

Please provide answers to the questions that follow by ticking [√] or filling in the gaps as appropriate.

SECTION A – INTERNAL AUDIT DEPARTMENT

- 1. Do branches use Head Office audit resources for specific engagements (IT auditing, fraud auditing, environmental auditing etc)? Yes [] No []
2. Does Fan Milk Ghana have an internal audit charter (i.e. guidelines for internal audit procedures)? Yes [] No []
3. If no, do you think that the Fan Milk Ghana needs to have it? Yes [] No []

SECTION B – INTERNAL AUDIT STAFF

- 4. How often do staff of the internal audit department shift within the department?
5. Do you think that the Fan Milk Ghana's audit department or divisions have;
a. A sufficient number of staff Yes [] No []
b. Appropriately qualified staff Yes [] No []
c. Staffs that have relevant skill and experience to risk identification and planning methodology to deliver a high quality audit services? Yes [] No []
6. What are the objectives of the internal audit function in the Fan Milk Ghana?

SECTION C – AUDIT COMMITTEE

- 7. Is there an Audit Committee in Fan milk Ghana ltd? Yes [] No []
8. If yes, do you believe that the audit committee has the right composition of knowledge, experience, and representation to meet its roles? Yes [] No []
9. Which body is the Audit Committee responsible to?
a. Board of Directors Yes [] No []
b. Chief Executive Officer Yes [] No []
c. Chairman Yes [] No []



d. Audit Board Yes [] No []

SECTION D – INDEPENDENCE

10. Is the independence of the internal audit department assured?

Yes [] No []

11. Does the internal audit department have the scope to determine its own priorities and activities? Yes [] No []

12. Do you have access to all records, assets and personnel necessary for the proper conduct of your audits? Yes [] No []

13. If no, give reasons.....

14. Have you ever been involved in a conflict of interest situation?

Yes [] No []

15. Has your independence or objectivity ever been impaired?

Yes [] No []

16. If yes, give reasons.....

17. How did you resolve it?.....

18. Do you have access to all levels of the organization? Yes [] No []

19. Are salary levels sufficient to allow the Fan Milk Ghana to attract and retain auditors with the requisite professional skills and qualifications? Yes [] No []

20. Do you have any other work assignments within the Fan Milk Ghana in addition to the internal audit? Yes [] No []

21. Who is responsible for appointing the head of internal audit department in your organization?.....

22. Have you ever encountered any threat to your independence as an internal auditor? Yes [] No []

SECTION E – AUDIT PLAN AND PROGRAMME

23. Has the internal audit department designed an overall audit plan for identifying areas of risk? Yes [] No []

24. If yes, specify.....

25. Do programs and/or questionnaires exist for each department or function? Yes [] No []

26. Are your audit programs documented? Yes [] No []

27. Do you seek and receive approval for audit programs before executing them? Yes [] No []

28. Do you prepare audit programs for each department or function?

1. Yes [] No []

SECTION F – COMPETENCE OF INTERNAL AUDIT STAFF



29. Are your audit objectives often achieved? Yes [] No []
30. Is any staff of the internal audit unit a member of a professional body (e.g. ICA, ACCA, CIMA and IIA)?
Yes [] No []
31. Is the knowledge of finance and / Fan Milk Ghana a factor for consideration in appointing internal audit staff? Yes []
No []
32. Does the institution maintain a program of continuing professional education for its internal audit staff? Yes []
No []
33. Have you ever been given an audit assignment for which you lack requisite knowledge? Yes []
No []

SECTION G – PROFESSIONAL AUDITING STANDARDS

34. Are your auditing procedures based on any standards? Yes [] No []
35. Have there ever been situations when the standards have not been complied with? Yes []
No []
36. If yes, give reasons.....
.....

SECTION H – REPORTING AND FOLLOW-UPS

37. Are your audit reports or results given prompt and independent consideration? Yes []
No []
38. Does the internal audit report contain the status of all audits on the internal audit program?
Yes [] No []
39. Does the internal audit report contain the summaries and conclusions of all audits completed during the period?
Yes [] No []
40. Does your audit report include a recommendation for remedial action?
Yes [] No []

SECTION I – OUTSOURCING OF INTERNAL AUDIT FUNCTION

41. How often does Fan Milk Ghana outsource its internal audit function or activities to independent outside professionals or
audit firms?Z
.....
42. If the Fan Milk Ghana outsources the responsibility for internal audit function, does the outside contractor remain
independent and not act in a capacity equivalent to management? Yes [] No []
43. Does the arrangement comply with the auditing standards?
Yes [] No []

Thank you very much for answering the questions!!!



APPENDIX C

**Agriculture
development bank
GHANA DATA AS
AT AUGUST ,2016**

Commodity	Price (\$)	Change
Gold	1,324.50	-12.80
Cocoa	3,025.00	10.00
Crude Oil	49.34	0.29
Coffee	142.70	0.55

Data as of Aug 25, 2016

Currency	Pairing	FX Rate
US Dollar	USD/GHS	3.8510
Pound Sterling	GBP/GHS	5.0478
Euro	EUR/GHS	4.3095
Chinese Yuan	GHS/CNY	1.7340
Swiss Franc	CHF/GHS	3.9372
Indian Rupee	GHS/INR	17.4401
Nigerian Naira	GHS/NGN	81.7969
S. African Rand	GHS/ZAR	3.7393



Agriculture
development bank
GHANA DATA AS
AT AUGUST ,2016

Commodity	Price (\$)	Change
Kenyan Shilling	GHS/KES	26.2919
W/A CFA Franc	GHS/XOF	152.4383

Data as of Aug 29, 2016

EQUITIES	VOLUME	PRICE	CHG.
AADS	0	0.52	0.00
ACI	0	0.01	0.00
AGA	0	37.00	0.00
ALW	0	0.14	0.00
AYRTN	0	0.10	0.00
BOPP	0	2.70	0.00
CAL	100	0.88	0.00
CLYD	0	0.03	0.00
CMLT	0	0.12	0.00
CPC	2,000	0.01	0.00