

Collaborative Effectiveness of the Internal Audit Unit and Audit Committee at the New Juaben South Municipal Assembly in Ghana

David Boohene

University of Energy and
Natural Resources
Ghana, West Africa.

Love Gyebi

Kwame Nkrumah
University of Science and Technology
Kumasi, Ghana, West Africa.

Abstract

There are numerous studies on the difficulties that the Internal Audit Unit (IAU) and Municipal Audit Committee (MAC) face in Ghana; however, there is less information on how these entities work together to improve the performance of municipal assemblies in Ghana. On this premise, this study investigates if there exists a collaborative role using simple eta-squared to estimate the effect size between the internal audit unit and the audit committee on the performance of the New Juaben South Municipal Assembly (NJSMA), Ghana. The research design for this study is both exploratory and descriptive in nature, with a target population of 323 workers, out of which a sample of 215 was drawn for the survey. The survey found that there is, in fact, a significant and substantial level of cooperative effectiveness between the internal audit unit and the municipal audit committee at NJSMA of Ghana. This cooperative effectiveness between the two variables, which are the work of the municipal committee and the work of the internal audit unit, improves performance at the municipal assembly.

Keywords

Audit committee, Internal audit unit, Performance, Collaborative effectiveness, and Municipal Assembly.

1. Introduction

The effectiveness and challenges of the Internal Audit Units (IAU) and the Audit Committees (AC) in Ghana have been topics of interest among researchers, practitioners, and policymakers. Municipal audit committees are responsible for overseeing the financial affairs of municipalities. They are established under the Local Government Act. The primary role of ACs is to provide independent assurance that the financial affairs of municipalities are being managed in accordance with applicable laws and regulations (Abbott et al., 2004; Glover-Akpey, 2016). On the other hand, the primary role of IACs is to ensure that financial transactions are recorded accurately and that financial statements are

prepared in accordance with generally accepted accounting principles (Abbott et al. 2004). They also assess risk management processes and provide assurance about the effectiveness of internal controls. One of the key differences between the IAU and AC is their scope of responsibilities. That is, IAUs focus on providing assurance on the effectiveness of internal controls, while ACs focus on providing assurance that the financial affairs of municipalities are being managed in accordance with applicable laws and regulations. It is, however, interesting to note that, while studies on IAUs and ACs have focused on how each affects performance (Egiyi & Okafor, 2022; Agyemang, 2020), less work has been done on the collaborative efforts of IAUs and ACs. For instance, a study by Onumah and Krah (2012) evaluated the effectiveness of IAUs in improving financial management in local government units in Ghana. The study found that IAUs play a critical role in identifying risks, testing internal controls, and making recommendations for improvement. On the other hand, a study by Verschoor (2008) found that audit committees play a critical role in providing oversight and ensuring compliance with laws and regulations. Thus, while there are several separate works by ACs and IAUs, there is less information on the collaborative efforts of these entities.

Further, according to Section 86 of the Public Financial Management Act, 2016 (ACT 921) in Ghana, all covered entities are required to set up an audit committee to perform specific functions in relation to the supervision of the financial affairs of the municipalities. The audit committee also ensures that the head of the covered entities under ACT 921 pursues the implementation of recommendations contained in both external and internal audit reports. Yet, regardless of these reports and recommendations, which ought to be implemented many times, we read about large sums of money being lost by government entities and other financial institutions, leading to funding challenges and the eventual collapse of some of these institutions (Boohene et al., 2018). Failure to remit tax, and making payments without attachment of Value Added Tax (VAT) invoices, among others, are some of the challenges encountered (Audit Committee Report, 2020), and one of the reasons given for these issues is due to ineffective internal audit controls. Consequently, the follow-up questions on these issues are, “Where was the internal auditor unit?” And how come the municipal audit didn’t alert the internal audit unit to imminent loopholes?” It does appear, therefore, that the municipal audit committee plays more of an independent policing role as opposed to a collaborative role with the internal audit unit (De Zoort et al., 2002). Based on this setting, the authors are motivated to investigate the collaborative role between the audit committee and the internal audit unit in the performance of NJSMA.

2. Review of the Literature

2.1 Internal Audit Unit

Canestrari-Soh & Martinov-Bennie (2011) defines internal auditing as an independent management function that involves a continuous and critical appraisal of the functioning of an entity with a view to suggesting improvements thereto and adding value to and strengthening the overall governance mechanism of the entity, including the entity's strategic risk management and internal control systems. The Institute of Internal Auditors (2015) defines internal auditing as an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. Internal audit is the independent appraisal function, and its effectiveness determines the success of an organization (Suleiman & Dandago, 2014). The Institute of Internal Auditors (IIA) noted that internal audit effectiveness is the degree of quality to which targets or goals set are attained. Internal audit function effectiveness refers to the capability of the internal auditors to meet the objectives that are established within an organization (Dittenhofer, 2001).

2.1.1 Internal Audit Practices

Effective audit practices in the public sector are crucial as they protect the interests of the citizens and strengthen governance by significantly enhancing the citizens' ability to hold their public officers accountable (Institute of Internal Auditors, 2012). Although audit practices tend to differ across countries, generally, public sector audit activities entail organizational independence, a formal mandate, unrestricted access, sufficient funding, competent leadership, objective staff, competent staff, stakeholder support, and professional audit standards (IIA, 2012). MacRae & Gils (2014) posit further that internal audit practices or activities comprise internal auditors' competence, roles and responsibilities, independence, and objectivity in carrying out their work and reporting effectively.

2.2 Audit Committee

As put by Glover-Akpey and Azembila (2016), the aim of an audit committee is to improve organizational governance, regardless of whether the organization is in the private or public sector. As a subcommittee of the governing body, an audit committee aims to provide assurance on financial and compliance issues through increased scrutiny, accountability, and the efficient use of resources. An audit committee may also serve an advisory

function aimed at performance improvement within the organization. To perform its role, an audit committee must be established and empowered with the authority to perform its duties. Previous studies have indicated that the monitoring role of audit committees is a key element in corporate governance, helping to control and monitor managers' practices (Campbell and Mnguez-Vera 2008; Afify 2009). Furthermore, audit committees improve the quality of financial reporting and decrease audit risk, thereby improving the quality of reported earnings (Contessotto and Moroney 2014; Abernathy et al. 2015). Therefore, audit committees play an important role in overseeing and monitoring a company's management with the aim of safeguarding the interests of the owners (Kallamu and Saat 2015). It is recognized that an effective audit committee focuses on enhancing company performance and competitiveness, particularly in a changing business environment that is beyond the control of the company (Herdjiono and Sari 2017). An effective audit committee is expected to emphasize the optimization of shareholders' wealth and prevent managers' maximization of their personal interests (Bansal and Sharma 2016). Thus, the role and responsibility of the audit committee cover wider areas such as the monitoring of managers and the review of the company's internal control system (Aldamen et al. 2012).

2.2.1 Competencies of the Audit Committee

The literature recognizes that members of audit committees need to possess certain professional and personal attributes and qualities in order to perform their roles through functional activities, processes, and procedures. The responsibility for overseeing internal control and financial reporting and good governance requires that audit committee members possess a certain level of competencies. Hosan & Khan (2014) recommend that each member of the audit committee should be financially literate and that at least one member should have accounting or related financial management expertise, where expertise is defined as "past employment experience in finance or accounting or any other comparable experience or background which results in the individual's financial sophistication, including being or having been a CEO or other senior officer with financial oversight responsibilities."

2.2.2 Independence of the Audit Committee

Bryan et al. (2004) found that the independence of the audit committee has a positive influence on the quality of earnings. In contrast, some studies have opined that independent audit committees are less likely to

be associated with financial statement fraud but have a lower incidence of earning restatement because independent audit committees are able to provide unbiased assessment and judgment and are able to monitor management effectively (Agrawal & Chadha, 2005). According to Warga (2014), independence of the audit committee and authority are important concepts that enable the audit committee to operate without interference and provide effective feedback to management on how to continuously enhance effective control policies.

3. Research Methodology

The study is limited to responses from employees at the NJSMA, Koforidua, particularly the internal audit department. The New Juaben South Municipality is one of the 260 metropolitan, municipal, and district assemblies in Ghana and forms part of the 33 (thirty-three) municipalities and districts in the Eastern Region. The municipality was established in 1988 by Legislative Instrument (LI) 1426. The target population for this study is defined as workers belonging to the audit department, budget department, accounting department, planning department, works department, and environmental department, all totaling 323. The sample size for the study is 215. The study employs correlation analysis and eta-squared to estimate the effect size between the audit committee and the internal audit unit on the performance of the New Juaben South Municipal Assembly (NJSMA), Ghana.

4. Results and Discussion

Descriptive statistics (Demographic Profile)

Table 1:- Presentation of Sampled Demographic Profile of Respondents

	Category	No. of Respondents	Respondents (%)
Gender	Male	137	63.7
	Female	78	36.3
	Total	215	100
Age Category	20-29	58	27.0
	30-39	112	52.1
	Above 39	45	20.9
	Total	215	100
Number of Years Worked	1-3years	54	25.1
	4-7years	122	56.7

	Category	No. of Respondents	Respondents (%)
	More than 7years	39	18.1
	Total	215	100

Source: Author's Compilation 2022

Table 1 reveals the sampled demographic profile of respondents. From the table, 137 respondents (63.7 percent) are male, whereas 78 (36.3 percent) are female. In terms of age category (58), representing (27.0 percent) are between the ages of 20 and 29, whereas (112) representing (52.1 percent) are between the ages of 30 and 39. On the other hand, 45 respondents (20.9 percent) are over 39 years old. This indicates that workers at NJSMA who responded to this survey are mainly youthful and also within their active working period. Further, in terms of the number of years worked, 25.1 percent of the respondents have been working in the municipality for the past three years. Whereas 56.7 percent of the 122 respondents have been working for the past seven years. This goes to confirm that the municipality has a low worker retention rate and puts it in a better position to give an account of the phenomenon under study.

Table 2:- Correlations

		Work of Municipal Audit Committee	Work of Internal Audit Unit
Work of Municipal Audit Committee	Pearson Correlation	1	.624**
	Sig. (2-tailed)		.000
	N	215	215
Work of Internal Audit Unit	Pearson Correlation	.624**	1
	Sig. (2-tailed)	.000	
	N	215	215

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

Source: Author's Compilation 2022

There is a significantly high positive relationship between work of the municipal audit committee and the work of the internal audit unit. As seen from the Table above, statistically $\rho(215) = 0.624, P = 0.00; P < 0.01$ and ρ is positively high.

Table 3:- Model Summary^c

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.397 ^a	.157	.149	1.192
2	.394 ^b	.155	.151	1.191
a. Predictors: (Constant), Municipal audit committee				
b. Predictors: (Constant), Internal audit unit				
c. Dependent Variable: Performance at NJSMA				

Source: Author's Compilation 2022

As observed in Table 3, the predictor ability as explained by the R Square is (0.157) for the municipal audit committee on performance and (0.155) for the internal audit unit on performance which is significant in both cases. That is, the municipal audit committee explains 15.7 percent of the variations in the dependent variable whereas the internal audit unit explains 15.5 percent of the variations in the dependent variable.

Table 4:- One-Sample Test

	Test Value = 0					
	t	df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
Relationship between the municipal audit committee and internal audit unit at NJSMA	70.644	214	.000	3.693	3.59	3.80

Source: Author's Compilation 2022

To assess the cooperative effectiveness between the municipal audit committee and the internal audit unit, the Eta-square was used. The main indicators were ranked using a five-point Likert Scale. The indicators include the work of the municipal audit committee and the work of the internal audit committee. The values assigned to the response had 1 representing “weak agreement” or strong disagreement rising up to 5 representing “strong agreement”. To measure the

extent of effect in terms of the cooperative effectiveness between the two variables, the researcher employs a modified version of Eta Squared, which is given by the formula:

$$Eta-Squared = \frac{t^2}{t^2 + N - 1}$$

Where: 0.01 = small effect, 0.06 = moderate effect, and 0.14 = large effect. t = t-value; N-1 = degree of freedom (t = 70.644 and N = 215); eta-squared = 0.95888 and therefore there is a significant amount of cooperative effectiveness between the audit committee and the internal audit unit at NJSMA, which enhances performance. The outcome of these results is in line with a survey by the Institute of Internal Auditors (2022) about the importance of building relationships of trust and enhanced connections between the internal audit and audit committee, as such relationships are critical for improved organizational performance. Also, a strong, supportive relationship between these two entities creates and enhances the independence and objectivity necessary for an effective audit function. Thus, relationships between internal audit and audit committees exist in order to foster competence, positive thinking, and corporate culture, as internal auditors in return seek to influence the role of the audit committee to ensure a maximum effect in respect of good corporate management and control (Wong 2012).

Table 5:- Chi-Square Tests (Decision Rule)

Hypothesis	Decision rule	Results/ Decision
H1	If p-value ≤ 0.05, the test is significant If p-value > 0.05, the test is not significant	p-value ≤ 0.05 Accept H1
H2	If p-value ≤ 0.05, the test is significant If p-value > 0.05, the test is not significant	p-value ≤ 0.05 Accept H2
H3	If p-value ≤ 0.05, the test is significant If p-value > 0.05, the test is not significant	p-value ≤ 0.05 Accept H3
H4	If p-value ≤ 0.05, the test is significant If p-value > 0.05, the test is not significant	p-value ≤ 0.05 Accept H4

Source: Author's Compilation 2022

Thus, the following hypothesis was accepted, namely:

H1: The work of the internal audit unit enhances performance at NJSMA, Koforidua.

H2: Competencies of audit committee enhances performance at NJSMA, Koforidua.

H3: Internal audit unit practices enhances performance at NJSMA, Koforidua.

H4: There is an effective cooperation between the audit committee and the internal audit unit at NJSMA, Koforidua.

5. Conclusion

The survey found that there is, in fact, a significant and substantial level of cooperative effectiveness between the Internal Audit Unit and the Municipal Audit Committee at NJSMA, Koforidua. This cooperative effectiveness between the two variables, which is the work of the internal audit unit and the municipal audit committee, improves performance at the municipal assembly. To sustain such a progressive relationship, it is imperative for the internal audit and the audit committee to have a clear understanding of their reporting responsibilities and expectations, as the relationship between the two is critical to maintaining the healthy working atmosphere necessary for improved performance. The researchers, however, posit that, to further affirm the link between the audit committee and internal audit unit and how their collaborative efforts affect performance in the future amidst challenges, it would be appropriate to use a broader spectrum of variables from different public sectors.

6. References

1. Abbott, L. J., Parker, S., and Peter, G.F. (2004). Audit committee Characteristics and Restatement. *Auditing: Journal of Practice and Theory*, 23(1), 69-87
2. Afify, H. (2009). Determinants of Audit Report Lag: Does Implementing Corporate Governance Have Any Impact? Empirical Evidence from Egypt. *Journal of Applied Accounting Research*, 10(1), 56-86. <https://doi.org/10.1108/09675420910963397>
3. Agyemang Joseph Kwasi (2020). The Relationship between Audit Committee Characteristics and Financial Performance of Listed Banks in Ghana. *Research Journal of Finance and Accounting*, 11(10), 22-35
4. Aldamen, H., K. Duncan, S. Kelly, R. McNamara, & S. Nagel. (2012). Audit Committee Characteristics and Firm Performance during the Global Financial Crisis. *Accounting & Finance*, 52(4), 971-1000.
5. Audit Committee Report (2020). *ABWMA Audit_Committee_Report 2020_Final.pdf*
6. Bansal, N., & A. K. Sharma. (2016). Audit Committee, Corporate Governance and Firm Performance: Empirical Evidence from India. *International Journal of Economics and Finance*, 8 (3), 103. <https://doi.org/10.5539/ijef.v8n3p103>

7. Boo E and Sharma D (2008) Effect Of Regulatory Oversight on the Association between Internal Governance Characteristics and Audit Fees. *Accounting and Finance* 48: 51–71
8. Boohene, D., Maxwell, A., Anima Aboagye, A., Lakshimi, K.S., Singh, P., (2018). Funding Liquidity risk in Ghanaian Microfinance Institutions (MFI'S). *International Journal of Research in Business Studies*, 3 (1), 19-31. <http://dx.doi.org/10.6084/m9.figshare.22647832>
9. Bryan, Daniel M., Carol Liu, and Samuel L. Tiras. 2004. *The Influence of Independent and Effective Audit Committees on Earnings Quality*. SSRN.com/abstract=488082
10. Campbell, K., &A. Mínguez-Vera. (2008). Gender Diversity in the Boardroom and Firm Financial Performance. *Journal of Business Ethics*, 83 (3), 435-451. <https://doi.org/10.1007/s10551-007-9630-y>
11. Canestrari-Soh, Dominic and Martinov-Bennie, Nonna (2011). The Internal Audit Function: Perceptions of Internal Audit Roles, Effectiveness, and Evaluation (June 7, 2011). *Managerial Auditing Journal*, 26 (7), 605-622. <https://ssrn.com/abstract=1860568>
12. Contessotto, C., & Moroney, R. A. (2014). The Association between Audit Committee Effectiveness and Audit Risk. *Accounting and Finance*, 54(2), 393 - 418. <https://doi.org/10.1111/acfi.12010>
13. Institute of Internal Auditors (2022). Relationship of Trust: The Audit Committee and Internal Audit. <https://www.acaglobal.com/insights/relationship-trust-audit-committee-and-internal-audit>
14. DeZoort, F.T., and Salterio, S. (2001) The Effects of Corporate Governance Experience, Financial Reporting and Audit Knowledge on Audit Committee Members' Judgments. *Auditing: A Journal of Practice and Theory* 20: 31–47.
15. DeZoort, F.T., Hermanson, D.R., Archambeault, D.S., Reed, S.A. (2002), Audit Committee Effectiveness: A Synthesis of the Empirical Audit Committee Literature. *Journal of Accounting Literature*; 2002; 21, ABI/INFORM Global.
16. Dittenhofer, M. (2001). Performance auditing in governments. *Managerial Auditing Journal*, 16(8), 438-442.
17. Egiyi, M. A. & Okafor, V. I. (2022). The Impact of Internal Audit Efficiency on Financial Performance. *European Review in Accounting and Finance*, 6(1), 13-22.

18. Glover-Akpey, I., Azembila, A.B., (2016). The Effect of Audit Committees on the Performance of Firms Listed on the Ghana Stock Exchange. *Journal of Business and Management*, 18(11), 55-62.
19. Herdjiono, I., & I. M. Sari. (2017). The Effect of Corporate Governance on the Performance of a Company. Some Empirical Findings from Indonesia. *Journal of Management and Business Administration*, 25(1), 33-52
20. Institute of Internal Auditors (IIA). (2015). Audit Committees: Internal Audit Oversight. Retrieved from <https://na.theiia.org/aboutia/Public Documents/08775/QUALITYAC/BROCHURE /1/FINAL.pdf>
21. Institute of Internal Auditors, (2012). *Supplemental Guidance: The Role of Auditing in Public a Sector Governance 2nd Edition*.
22. Kallamu, B. S., & N. A. M. Saat. (2015). Audit Committee Attributes and Firm Performance: Evidence from Malaysian Finance Companies. *Asian Review of Accounting*, 23(3), 206-231. <https://doi.org/10.1108/ARA-11-2013-0076>
23. Liao, C. H., & A. W. H. Hsu. (2013). Common Membership and Effective Corporate Governance: Evidence from Audit and Compensation Committees. *Corporate Governance: An International Review*, 21(1), 79-92. <https://doi.org/10.1111/corg.12000>
24. MacRae, E. & Gils, D. V. (2014). Nine Elements Required for Internal Audit Effectiveness in the Public Sector: A Global Assessment Based on the IIA's 2010 Global Survey. *The IIA Research Foundation*, 1-31
25. Onumah, J.M., & Krah, R. (2012). Barriers and Catalysts to Effective Internal Audit in the Ghanaian Public Sector, in Venancio Tauringana, Musa Mangena (ed.) *Accounting in Africa (Research in Accounting in Emerging Economies*, 12, 177 – 207.
26. Suleiman, D. M., & Dandago, K. I. (2014). The Extent of Internal Audit Functions Outsourcing by Nigerian Deposit Money Banks. *Procedia-Social and Behavioral Sciences*, 164, 222-229
27. Tao, N. B., & M. Hutchinson. (2013). Corporate Governance and Risk Management: The Role of Risk Management and Compensation Committees. *Journal of Contemporary Accounting & Economics*, 9(1), 83-99. <https://doi.org/10.1016/j.jcae.2013.03.00>
28. Wong, G (2012). *An Analysis of the Role and Performance of Audit Committee in the Victorian Government Public Sector in Providing Assurance and Governance*. Victorian University. A New School of Thought.
29. Yang, J.S., & Krishnan, J. (2005). Audit Committees and Quarterly Earnings Management, *International Journal of Auditing*, 9, pp. 201-219

30. Yatim P, Kent P and Clarkson P (2006) Governance Structures, Ethnicity, and Audit Fees of Malaysian Listed Firms. *Managerial Auditing Journal* 21: 757–782
31. Verschoor, C.C. (2008). *Audit Committee Essentials*. John Wiley & Sons.