

**ASSESSMENT OF THE INTERNAL AUDIT UNIT OF KUMAWUMAN
RURAL BANK LIMITED**

By

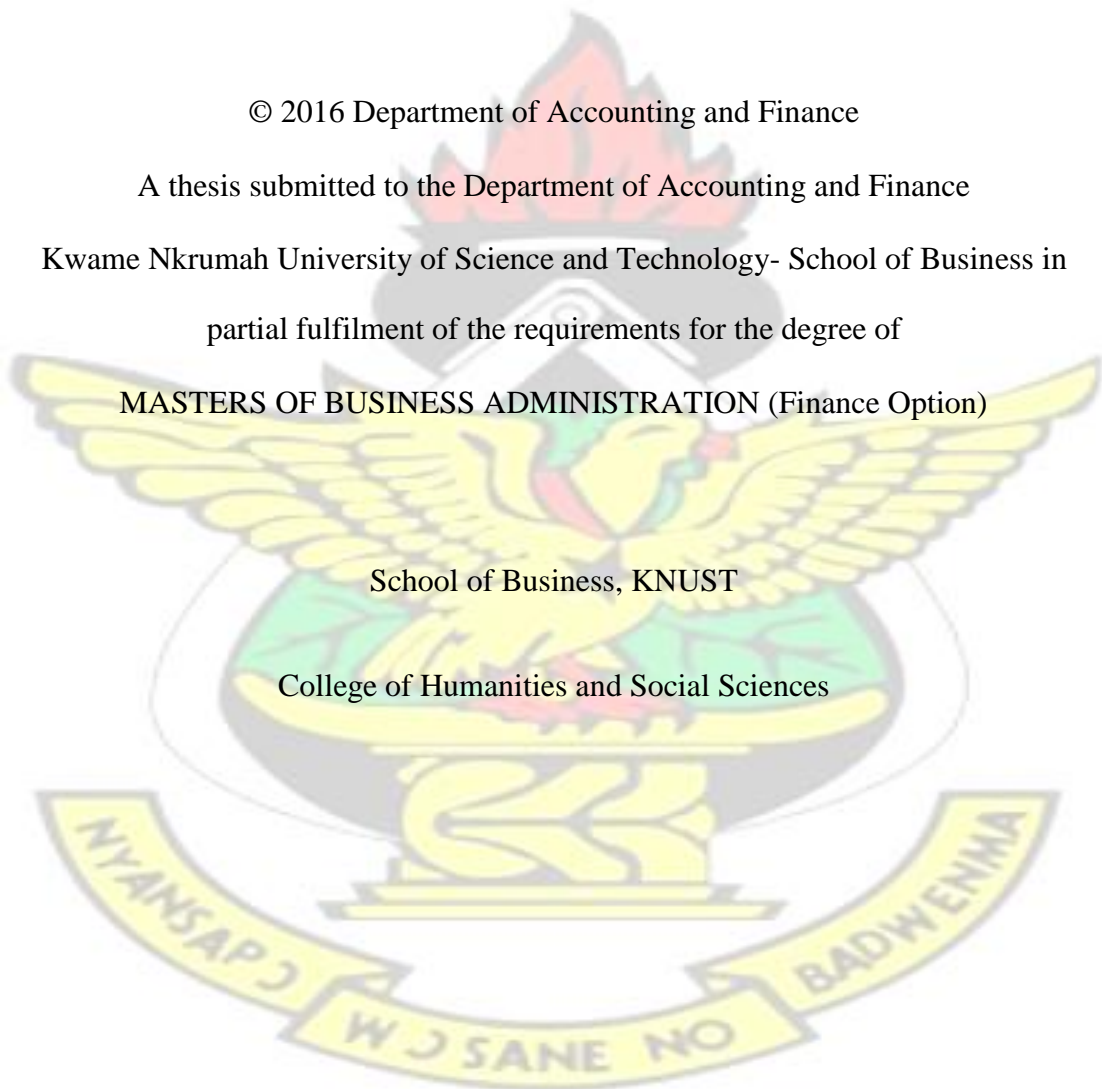
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DEDICATION

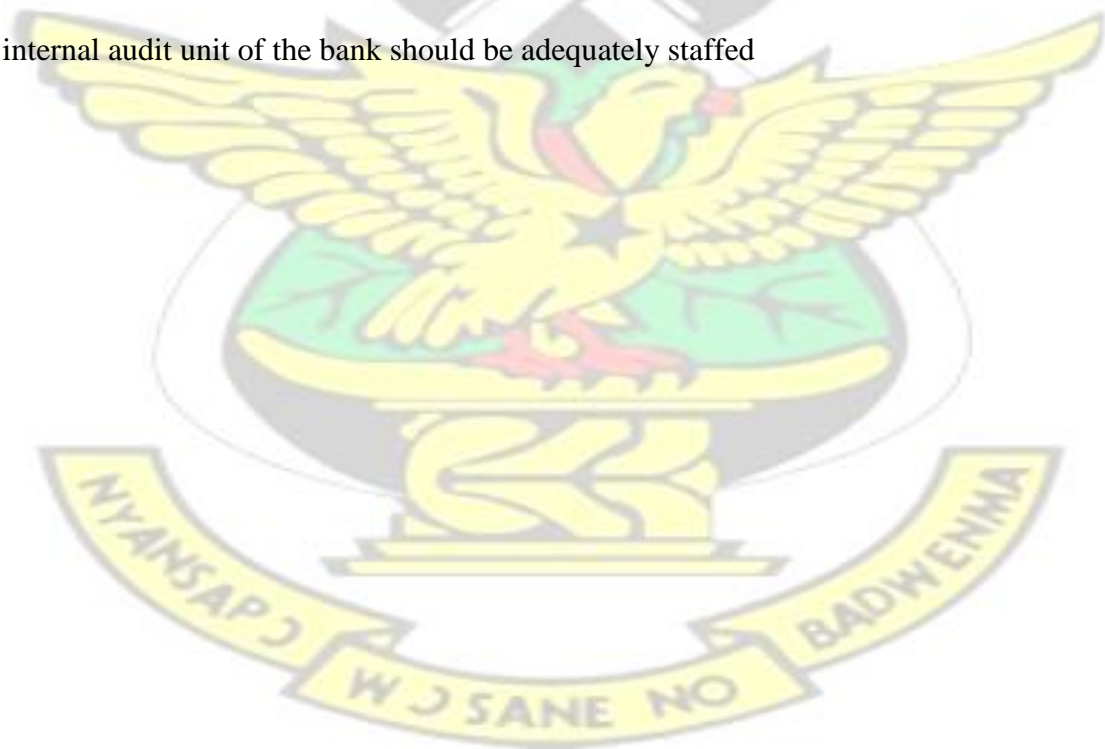
This work is especially dedicated to my father, Thomas Clarence Ababio, my late mother, Comfort Tenkorang and all of my siblings.

KNUST



ABSTRACT

Forming part of the economy's commercial banking system, Rural and Community Banks (RCBs) have been commended for their efforts in making banking services available in most rural communities. With the establishment of internal audit departments in rural and community banks, it becomes necessary to assess the extent of effectiveness of their internal audits. This study employing an exploratory case study used structured questionnaires and interview to gather responses from 15 staff of Kumawuman Rural Bank Limited. It was found out that the internal audit of Kumawuman Rural Bank Limited was effective in carrying out its various functions. Observance of reporting standards was also found to be in compliance with laid down auditing standards. The auditing unit was found to be challenged with the workload attributable to the large number of branches of the bank. It is recommended that the internal audit unit of the bank should be adequately staffed



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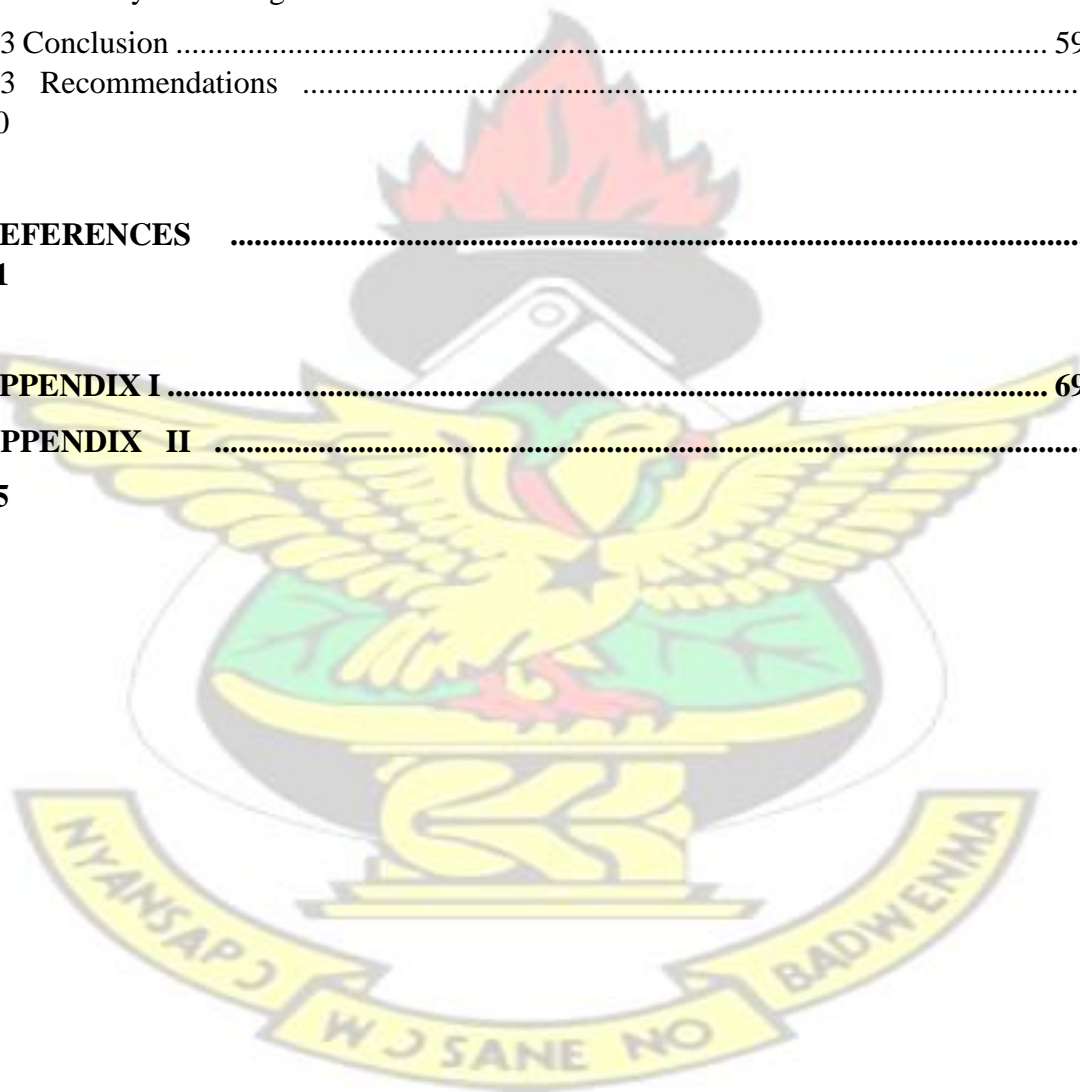
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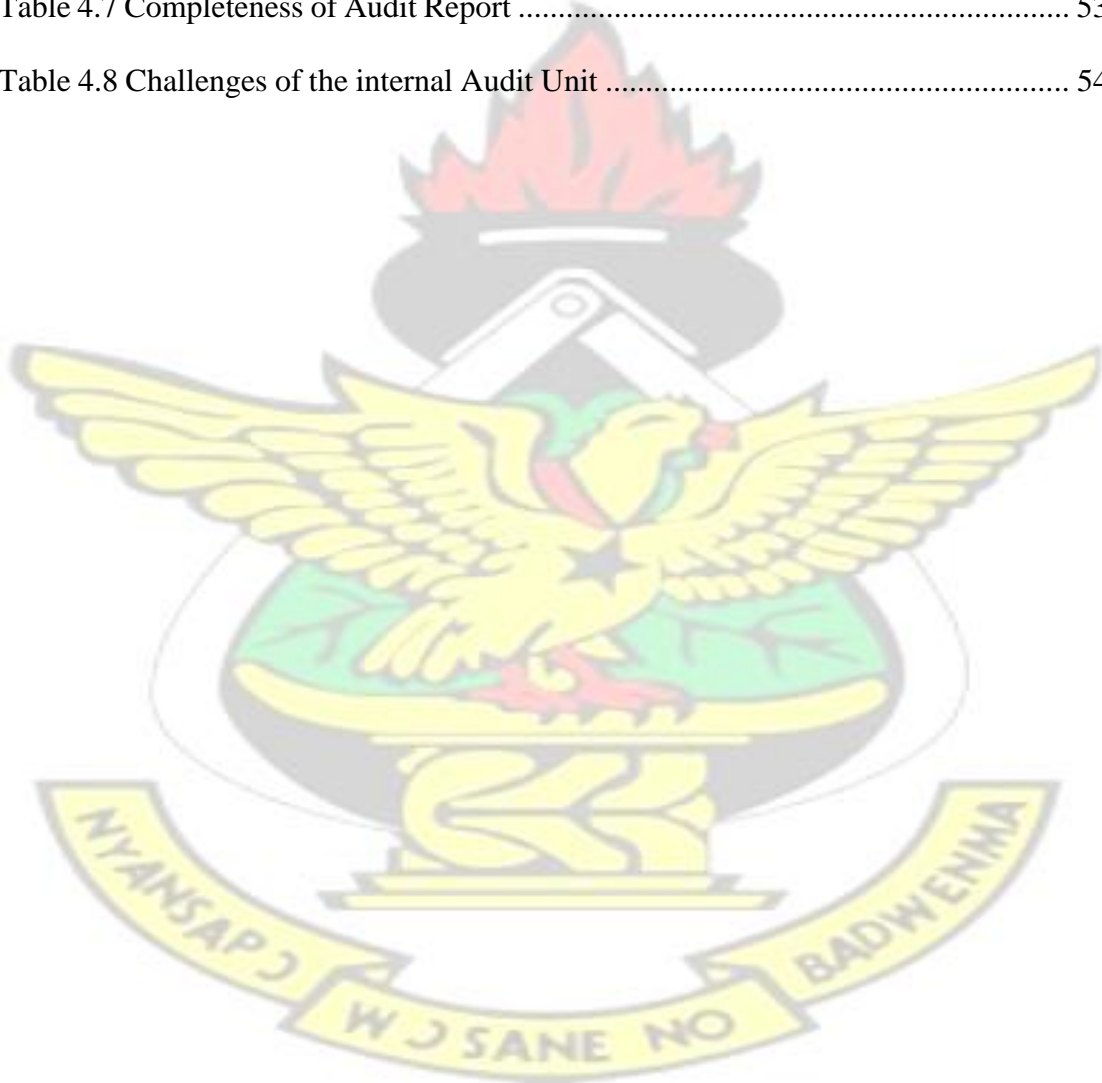
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CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

The emergence of banking institutions in the country and their enormous contributions to the growth of the economy cannot be overlooked. There is a wide mix in ownership within the Ghanaian banking industry. Rebecca, Reena & Reynaldo (2002) defined banking as —The transactions carried on by any individual or firm engaged in providing financial services to customers, businesses, or government enterprises. This underlines the fact that financial services are not limited to the elite, but to anyone who wishes to transact business in the financial market. The banking industry plays a pivotal role in the functioning of any modern economy due to its financial intermediation role.

Forming part of the economy's commercial banking system, Rural and Community Banks (RCBs) have been rewarded for their immense devotion in making banking services available in most rural communities. They mobilize and channel funds to rural areas and thus increasing productivity and investment in the Ghanaian rural economy. RCBs have been at the forefront of providing credit facilities to farming communities in Ghana, with the overall goal of improving the wellbeing of the rural population among subsistence farmers and smallholder farmers, having a unique attention on women and the vulnerable in the society. In recognition of the importance of rural banks, the Bank of Ghana has come out with measures to help regulate the functioning of the industry to improve on the effectiveness of their auditing systems. This has given to the establishment of internal audit departments in RCBs not only to promote growth but also as a form of recognition, that just like other financial institutions, rural banks deserve an equal share of scrutiny of its operations in order to safeguard the funds of depositors and maintain a sound financial stability. The establishment of an effective

internal audit department in any organisation is very critical should the organisation consider accountability as a key factor in ensuring business success. Internal audit is considered as a vital component in the application and implementation of standard accounting systems which subsequently helps in appraising the work of the department. A lot of empirical research studies have established evidence of the significance of internal audit function and its role in providing oversight responsibility in the internal operations and functioning of the organization. Internal audit has been shown to significantly play roles in enhancing the quality of corporate governance, improvement and appraising of the internal controls systems of firms and monitoring of the environment of the organization and its ability to forestall risks of corruption and fraud in the organisation (Castanheira, Rodrigues & Craig, 2010).

One important role of the internal audit in an organization is the ability to clarify and make known various misrepresentation, weaknesses, errors and mistakes in the firm. The internal audit system is regarded as the pillar of the business as it is the unit that keeps and documents all activities in the sector they work. The competence of internal audit plays a role in developing the work of the organisation due to the reflection of the financial report in the soundness of the audit department. That besides, an internal audit is an important component of the corporate governance structure in an organization and embodies monitoring activities embarked by the directors and committees to ensure that the processes of financial reporting are credible (Fadzil et al 2014). The company or firm financial strategy is formed by establishing effective internal systems of which the internal audit possess a crucial part in improving the dependency of the internal control system, improving the process of managing various risks and ultimately ensuring that the needs of internal stakeholder are satisfied. The processes in the audit strengthen the system of accountability and responsibility which forms part of the duties that executive

directors and employees have towards the principals and other stakeholders (Eighme and Cashell, 2002).

From the grand perspective, the internal audit department serves to provide an independent, reliable, objective, and a free and fair service to the board of directors, the management team, and audit committee. Stakeholders on the other hand are interested in investment returns, real growth, fervent leadership, and reliable reporting on the financial position and business practices of the company (Ljubisavljević and Jovanovi, 2011).

Incorporated as a rural banking institution, Kumawuman Rural Bank (KRB) Limited has since built a strong reputation for itself. The bank has been able to provide specialist banking services to Kumasi Metropolis and rural areas around the SekyereKumawu District and has restored financial power back to communities. The institution has an internal audit department which performs audit functions in order to ensure accountability and conformity. The internal audit department's effectiveness can be assessed based on the performance of the bank over the years. It is worth noting that performance measurement is based on the interplay of strong internal checks and balance systems.

1.2 Statement of the Problem

The existence of businesses is because of investors and entrepreneurs' desire to actually benefits from their money or daily earnings. Generally, large and medium sized enterprises, SMEs are not managed by their owners; instead, they choose people who are capable and skilful in that particular industry to operate (Technikon, 2002).

The managers in the units can be helped irrespective of their skills level in the firm via internal auditing, to correct performance problems. By doing so, it improves their actual work done and hence increases organizational effectiveness. Chambers (2007) cited that it is rare indeed to find an enterprise of any size, which does not have an internal auditing function. In recent times, internal auditing has overshadowed services of other managerial team to become the main source of advice on the effectiveness and efficiency of the management team. In accordance with the business status, internal auditing is now a fervent well established business. However, in the Ghanaian rural banking sector, the full potentials of the internal audit are not fully employed. There remains gaps in the functioning of internal audit of a number of organisation, and a lot more are in the process of either being established or being upgraded (Teku, 2013). Being part of the fabrics of many organizations, internal auditing is sadly very active in a few of them in terms of performance (not active in most of them). Sometimes, rural banks wait for Bank of Ghana and external auditors to conduct the audit function. This implies that the internal audit role is ignored and regarded as unnecessary in most of the rural banks. With the set of benefits that can accrue to the firm as a result of the internal audit, one wonders why this important function would be ignored in a firm.

As profit making organizations focused on the bottom-line, rural bank managers need an evidence-based research on how internal auditing translates into profits and how this can enhance organizational performance. Studies have been conducted that have actually focused on internal auditing challenges in advanced countries like the U.S. and the U.K., but such studies are scanty in the context of developing countries like Ghana. Hutchinson and Zain's (2009) study dealt with the analysis of the link between internal (audit experience and accounting qualification) audit and firm performance (ROA) with growth opportunities. The few studies that have been carried out on internal

auditing in the Ghanaian rural bank and the banking sector in general seems to be focused on appraisal of internal control and audit practices (Alewaba, 2011; Teku et al 2013; Appiah, 2012 & Nsiah 2015). Also, there are few if any research on the extent to which the internal audit of rural banks have been effective since the move to establish these units in the operations of Rural and Community Banks (RCBs) in Ghana. This study therefore, employing a case study approach seeks to assess the internal audit unit of the Kumawuman Rural Bank Limited in the performance of its functions.

1.3 Objectives of the study

The general objective of the study was to assess the internal audit unit of Kumawuman Rural Bank Limited.

The specific objectives are to:

1. Determine the various functions played by the bank's internal audit unit
2. Assess the internal audit unit's value contribution to the Bank's performance
3. Examine the challenges that impede upon the performance of the internal audit unit's functions

1.4 Research questions

1. What are the various functions played by the bank's internal audit unit?
2. What value does the bank's internal audit unit contribute to its performance?
3. Are there any challenges that impede upon the unit's performance? How can the unit overcome such challenges if they exist?

1.5 Significance of the study

This study will attempt to assess the effectiveness of the internal audit unit of KRB Limited and how the function of the unit can be improved. Findings will be of importance in the sense that these findings will help management of the bank to recognise the importance of the internal audit functions and how it can enhance organizational growth. The study will also establish the extent of objectivity of reports, reporting channels, completeness of audit reports and timeliness of internal audit reporting as it is being carried out in the bank. This will inform management of the bank on the prospects in relation to internal audit practices. Study findings can also be of importance to rural bank supervisory agencies like Association of Rural Banks (ARB) and Bank of Ghana to give insight into the effectiveness of internal audit reporting of Kumawuman Rural Bank Limited. This will in the long run help in forming policies and regulations on internal audit reporting of rural banks. The current research study will be significant to researchers for literature and theoretical purposes as it will contribute to the extant empirical and theoretical literature available in the field of internal auditing of rural and community banks in the Ghanaian setting. This can be used by other scholars and research students interested in this area of study.

1.6 Limitation of the study

This study in particular is limited to the Kumawuman Rural Bank Limited which made it difficult to generalise the results obtained as applicable to the other numerous rural banks in the country. The study was also limited to the extent of precision of the data gathered from the various respondents. Time and financial constraints were some of the challenges faced during the survey as well.

1.7 Organization of the study

The organisation of this research study is structured into five chapters as follows: the first chapter - Chapter one is the introductory part to the research and presents the background to the study, problem statement, research objectives, significance of the research and the organization of the study. In the second Chapter is the review of related and relevant literature where discussion of various literatures from other writers on internal auditing and the various factors relating to audit reporting which includes objectivity of the audit reports, completeness of the auditing, timeliness of the auditing and the reporting channels used when providing the audit reports. The methodology employed in this research is presented in chapter three. It discusses the research design, the study area, population and sample, and sampling technique used for the research. It also covers the types and sources of data used for the study and the instruments used for collecting the data. In Chapter four is the analysis of the findings obtained from the field and presentation of the results thereof and finally, Chapter five concludes the study by summarising the findings and drawing conclusions from the findings and providing recommendations for improving the effectiveness of the internal audit department.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

In this chapter is presented the review of literature on internal audit function and the impact it can have on wellbeing of a firm. Various factors as they pertain to audit reporting include objectivity of the audit reports, completeness of the auditing, timeliness of the auditing and the reporting channels used when providing the audit reports.

2.2 Theoretical perspective

Various theories have been set out to explain how internal audit plays an influence on financial performance of a firm. Some of these are Agency theory and Contingency theory, which are discussed below.

2.2.1 Agency theory

Agency theory has to do with the resolving of problems that can exist in principal-agent relationship; that is, between principals or owners (stakeholders) and agents of the principals (company executives and management). There are some problems that agency theory addresses which include the following; (i) those problems that come up when the interests of the principal and agent are not aligned and the principal is not able to verify what the agent is actually doing. (ii) the problems that come up when the attitude of the principal and agent towards risks are different. As a result of difference in tolerance to risk, the principal and agent may separately be inclined to take different actions. Adam (1994) in his article noted that Agency theory can serve to make available a richer and more meaningful research in the discipline of internal auditing. Agency theory contends that internal auditing, in common with other intervention

mechanisms such as the reporting of finance, which actually stabilize the efficiency in the cost between owners and managers. Agency theory may not only help to explain the existence of internal auditing in organizations but can also help explain some of the features in the department of the internal audit, for instance, its size and wide scope of responsibilities.

2.2.2 Contingency Theory

In general, the aim and objectives of an audit is to test the reliability of the business or enterprise information, practices, policies and procedures. Regulations by governments demand that certain financial institutions embark on independent financial audits, but other auditing in areas such as technology and safety can be mandated based on their standards. Contingency theory posits that respective of the subject of the audit, a variety of factors will impact on the final results of the organization. The theory also takes these factors into account during the audit process.

Leadership and management contingency theory states that there is no set approach by which firms can be properly managed. Organizational functions are dependent on a number of external and internal factors. The functions of the audit are themselves, types of organizations that are influenced by various elements in the environment.

The availability of these factors is actually the reason for managing auditing by applying contingency theory, taking cognisance that audit procedures and results are reliable on certain indicators. On a broad level, the audit is straightforward. To manage the audit, the auditors need documents, policies and systems which are accessible to manage and control. They must remain compliant with the standard of the organization, rules from the state officials and the requests from internal audits.

Audit teams may commence the process by meetings where they put risk together and manage awareness and then proceeds with the actual work. The process of auditing involves auditors to perform substantive procedures and assess internal controls. On completion, they can produce reports that they channel to management and other regulatory authorities. The sub processes involved in auditing are particularly the planning of the field work which include contingencies such as the type of business, skills of the employee, reasonable laws, availability of the entire audit workforce and availability of technology and systems, and deadline.

Draft (2012) in his book notes that contingency implies something that depends on some other things and contingency theory means: it depends. Functions of Audit are work-based and cannot be heavily structured. The functions also can be different considerably, depending on the section and the model of the business which the organization falls under or belongs to, therefore auditors must always carefully manage their inspections and take into considerations the various variables for the work to be executed. Then, the contingency theory can be applied to an audit team's structure. Usually, the audit staff of the firm receive projects. The team subsequently creates ad hoc audit teams for the projects, selecting the experienced auditors based on their specialities, and auditor availability, all of which add up to contingencies for any given audit project.

2.3 The Internal Audit Function

Taylor and Glezen, (2004), defined internal auditing as _an autonomous review task established in the settings of an organization to monitor and evaluate its activities as a value addition service to the organization. Milli Champ (2013) also defined internal auditing as an autonomous appraisal activity in an organization for the assessment of

operations as a service to management. She further acknowledges that internal auditing is to examine and evaluate reports in order to verify the adequacy of internal control mechanisms as an input to the apt, cost-effective and proficient use of resources. It is agreed by Robertson and Okai (2006) that internal auditing seeks to help members of the organization in the effective and efficient discharge of their responsibilities. It is the objective of internal auditing to provide the business or the enterprise with explanations, study discoveries, possible recommendations, counsel and information as they are related to the reviewed activities. The internal auditor is therefore concerned with any stage of the organization where he offers a service to the managerial team. The task usually involves working above the financial and accounting records to elicit understanding of the organisation's operations.

According to Ljubisavljević & Jovanovi (2011), internal audit contributes immensely to the enterprise's goals achievement, and the formulation and implementation of possible strategies for the advancement of the organisation. Also, reinforcing the management and audit committee is a crucial audit function that cannot be undermined (Hutchinson & Zain, 2009). Similarly, internal audit establishes the reality, reliability, and integrity of financial and operational information that arise from the separate units of the organization, which provides the basis for prudent business decisions at all levels of management. Successful formulation of internal audit tasks denotes that it must be self-sufficient, i.e., it must not be influenced by management in terms of information, conclusions, and evaluations. By this, the internal audit report serves as an interactive means between the internal audit and the managerial team and a critical guideline for the excellence control of the management

(Ljubisavljević & Jovanovi, 2011).

The internal audit function facilitates the operation, efficient and the excellence work of the committee as the audit function goals are in line with the responsibilities of the former's financial reports (Goodwin and Yeo, 2001; Goodwin, 2003; Scarbrough, Rama & Raghunandan, 1998).

Along this line of argument, Al-Shammari (2010) stated that internal audit functions are influenced by many factors including; (i) the established internal control systems and arithmetic evaluations in an attempt to maintain that the accounting system and internal controls frameworks are appropriate, proves that the systems are proper for the facility and for proposing system enhancements. (ii) evaluating appropriate plans and guidelines to measure the defects and guidelines that the organization use and to propose needed enhancements and modifications and to give the internal auditors the power for the analysis and examination in the area of already formed activity. (iii) the commitment of staff to the company's policies and guidelines where internal auditors have to study these formulations, guidelines and policies in order to clarify them to the workers. (iv) allocated funds for safeguarding since the development and implementation of systems is an attempt to ensure the safeguard of the facility resources and money against manipulation and fraud.

2.4 Objectivity of Internal Auditing

Holt and DeZoort (2009) conducted a study that aimed at establishing the effects of internal auditing on corporate governance and performance of the organizational functions. The study showed that since internal auditors are required to check all the organizational internal controls and report thereof on them, the need to uphold objectivity is paramount. Audit exercises should not be based on subjective judgment, hearsay or witch-hunting. This is explained that reports that lack objectivity would raise

arguments and dissatisfaction among the members of the organization, which would tend to affect the performance of the organization in general. Also, the reports of the internal audit unit should be based on facts and authenticable sources in order to be given the necessary attention for action to be taken by the top management of the firm.

Gramling, Maletta, Schneider and Church (2004) examined the role of the internal audit reporting function on firms' performance and also on their corporate governance. It was revealed by their study that the objectivity of reports is imperative to ensure that positive change is effected in the different organizational processes to enhance corporate governance and organizational repute. Objective reports have the feature of not being biased which make many organizations' members to unanimously consent the report and adopt positive steps towards acting on the report and effecting the recommended changes. This positive consequence of internal audit objectivity in reporting produces strong internal controls and processes that serve as the catalyst for enriched organizational performance.

Again, Stewart and Subramaniam (2010) investigated the effect of internal audit objectivity and independence and its influence on the outcomes on the organization. It is observed that objectivity in the operation of the audit is important in all the functions including reporting. It's important to have reports that are verifiable with supporting documents since it is needed in guaranteeing that the integrity of internal audit is not compromised. By this, it ensures that the internal audit function provides reports that are not doubted by any unit of the organization and thus effectively playing its mandate of advisory. Reports that are characterised with insinuation, allegations and bias may develop dissatisfaction and disorder in the organization which may unfavourably affect the overall organizational performance (Aid, 2010).

Goodwin (2004) conducted a comparative analysis of the internal audit in the private and the public sectors. The analysis discovered that although internal auditing is an assurance activity that is supposed to be unbiased and independent, quite a number of internal auditors get themselves involved in certain activities that undermine the integrity, independence and objectivity of the reports, therefore the reports gathered are perceived as prejudiced and of little relevance. Instead of being regarded as advisors, they are seen as consultants whose reports may or may not be utilised. This situation is not helpful in allowing the internal audit to showcase its rightful role in guaranteeing that the company's operations are carried out competently and transparently. If internal audit reports are expected to play its role in accomplishing organizational objectives, their reporting must be objective, factual and unbiased (Stewart & Subramaniam, 2010).

2.5 Internal Auditing Channels

A study by Holt (2012) in USA assessed the influence of the internal auditing relationships on the credibility and subsequent performance of the organization in the stock market. The study established that investor based performance was better in companies whose internal audit reports were provided to the audit committee and the Chief Executive Officer (CEO) compared to those organizations that the internal auditor gave reports to the Chief Financial Officer (CFO). It further revealed that stock exchange performance of the companies that had internal auditors reporting to the CEO were because investors perceived that the assurance role of the internal audit department has more impact as opposed to those organizations that had internal audit reporting to the CFO.

The independence of internal audit according to the Institute of Internal Auditor's standards requires that a company's internal audit department should have a reporting relationship to a high level in the organization to ensure that it plays its assurance role properly. Having the audit reports directed to an office higher is crucial to ensuring that the reports are implemented and ensure that there is no conflict of interest to other offices. For example, Johnson (2006) noted that proper channels for reporting is important in guaranteeing independence of the audit departments and at the same time ensuring that management does not have any sway on the internal audit report. The internal audit department reports can contribute to the positive health of the company if they report to either the CEO or any other high office apart from the CFO. This is because the CFO has the charge for financial reporting while the audit reporting has to do with providing assurance on the financial reports and other controls.

Having the audit department to report to the CFO would therefore create a conflict and this would negatively affect the company performance not only in the near but also in the long term (Bou-Raad, 2010).

Another study by James (2003) established that a company that has internal audit department reporting to lower or perceived inferior levels of management may find it challenging in finding eager lenders. This may affect capital investment decisions of the firm which may consequently upset the future revenues and financial performance of the organization. Lenders or investors, have a dislike of organizations that have their internal audit departments reporting to the accounting head or other lower levels besides the CEO or the audit committee. Soh and Martinov-Bennie (2011) also had similar findings when they established that the ideal channel of reporting for the internal audit is the CEO and the audit committee. This implies that the internal audit should report

administratively to the CEO but functionally to the audit committee. This reporting relationship can create confidence on external investors and lenders who are providers of investing capital to the firm. This in turn would affect the financial performance of the organization in question. Having the internal audit reporting to any lower functional level would make capital providers to negatively rate the organization in terms of credit worthiness. This would imply that the firms may have limited access to credit or have access to credit on high interest rates.

It is observed by Stefaniak and Robertson (2010) that the channels of reporting are significant not only in who the internal audit reports to, but also in connection to relationship between the internal audit and whoever the departments reports to. Having a good reporting relationship provides the facility for the internal audit department to report on anticipated risks and opportunities that may not be easily recognisable based on current events.

A bad relationship creates an atmosphere of misgiving between the internal audit and where the department reports, which is unfavourable for the role they stand to play.

Issues that arise had to be reported by them. A very good working partnership is created as a result of a trustworthy environment that exists between the department of the internal audit and the places where reports of the department are usually taken. This actually makes the reports of the internal audits to be very meaningful and beneficial to the entire organization.

2.6 Scope of Internal Audit

Whittington & Pany (2001) discovered the extensiveness of the report from the internal audits. This emphatically influences the performance of finance of a firm via its

cohesion to basic principles, rules and state cooperation. One major factor which enables and strengthens the various departments in the firm to greatly have actions that influences the firm resources, performance, accountability, growth and success is reporting completely.

According to Arena and Azzone (2007), the comprehensiveness of the reports and affirmation that the department of the internal audit gives to the managerial team of the business or firm are actually required to affirm management, and strengthens them with the zeal that controls which are done internally and processes done operationally are clear and productive. Now, for the audit report to extensively and totally provide a deep insight and clear picture to the managerial team about controls carried out internally, it has to logically cover operations of the various areas and logically complete. Internal audit reporting involves releasing truths and clear ideas about the business or firm to the managerial team so that the team can actually take necessary actions. The behaviour of this truths and ideas could either be financial, regulatory or operational. If all the areas are not covered extensively in the reports, it will be nonuseful report to the management of the firm which could be harmful to the firm's performance financially (Clikeman, 2003). Internal audit reports which are not complete can lead to resources being lost, reduction in creditability of the department in charge of internal audit through the awareness of the other departments, which definitely can lead to great loss.

The quality of internal audit and the anticipation of the growth of the organization was studied by Hutchinson and Zain (2009). The study established that the function of the internal audit is to critically have a look at and review issues which are dealt internally in the organization.

The report to be presented should be in the appropriate format which is regarded by the firm and meet the organizational standards and procedures outlaid by the organization. An extensive report is significant to educate and train management on what is actually going on internally in the firm and hence ensure the development of the organization or the firm so that it can accomplish its goals (Hutchinson & Zain, 2009). In furtherance, the reports should give deep insights and clear picture on the challenges faced by the firm and how possible the firm or business can cope with the basic rules and regulations. This ensures that the organization will be in great positions to control and manage its challenges.

An audit report needs to have the following before it can be considered complete and usable. First and foremost, analysis of control weakness must reflect in the report. This is actually significant in assessing what are possible causes of the weakness in the firm (Coram et al., 2008). Analysis of the factors should be followed because of its great influence on the organizational weakness. An audit report may probably be deficient if it lacks one of the above mentioned factors and may not influence greatly on the performance of the firm goals.

2.7 Timeliness of Internal Audits

Al Matarneh (2011) defines timeliness as capability of internal auditing meeting the timeline of issuing reports to those charged with corporate governance. Also failure of the department in charge of audit to issue untimely reports can lead to organizational ineffectiveness and possible risks which will negatively influence the firm performance.

Al Matarneh (2011) made an observation during his studies on the factors that influence the quality of internal audit of various banks. He observed that reporting timely is very

crucial as it could provide basic information to the managerial team of the firm to avoid any challenges or hindrances in their organization.

Although the responsibilities assigned to internal auditors are too much, they are required to deliver and give timely reports to the managerial team of the firm so that management can take necessary actions against organizational risks and dangers. Reports from internal audits should be delivered on time to enable the managerial team work on possible recommendations they have to. Risks audit should be performed and reported regularly in order for the managerial team to know and be familiar with the possible outcomes in the organization. Reports which are delivered on time enhance easier and faster actions on internal controls which then improve organisational performance in terms of finance. In a study by Breakspear (2008), he found out that reports from internal audit should actually be compiled together on time and issued to all the various departments for it to be implemented. If there is a delay in the internal audit report, an existing bad situation in the organization will definitely be affected, and hence lose opportunities which would have improved performance financially. Authorities in charge of the internal audit should be made aware of expected delay in the internal audit report. Also, the operations and activities of the business or firm may be negatively affected if there is a delay in the internal audit report which will definitely affect the organization performance.

The importance of reporting on time was analyzed by Sparks (2011) where he noticed that early reporting by internal audit improves organizational effectiveness. According to Sparks (2011), the audit reports should have deep insight and clear concepts into the possible changes occurring and the impact it can have on the firm. This should be delivered to the managerial team earlier so they can take the necessary and needed

actions for business. Audit reports serve as an effective channel of communication when they are delivered to the top managerial team on time. They also serve as an effective tool for communication thereby enhancing the organizational performance. In furtherance, Soh and Martinov-Bennie (2011) added that internal audit reports become less valuable when they are released or delivered late which definitely affect the organization performance.

Again, Castanheira et al. (2010) in internal audit reporting, the reporting time should indeed follow the procedures outlined by the organization. The internal audit department should issue a report as quick as possible once the audit exercise is complete. The internal audit report should be a summary of what has been found, possible recommendations and analysis of any existing action by the managerial team. The internal audit report should be done earlier so as to help the management to manage and control other operations and possible risks. Moreover, internal audit report timeliness should not be focused until such that the audit assignment is completed. Therefore, the authorities in charge of the internal audit should be addressed with most critical issues in the firm to enhance effective and efficient monitoring. Reporting on time actually creates an atmosphere where the managerial team is aware and familiar with recent issues thereby enabling them to work effectively for a greater influence on the organization or firm (Archambeault et al., 2008).

2.8 Firm Financial Performance

A literature on organization performance for most of the business and economics is aimed at providing financial returns which is termed as profits or bonuses (Barney, 2011). Several scholars believe that the highest priorities of organization stakeholders are shareholders (Wailace, 2003). This is because shareholders are particularly not

assigned to a particular duty with the firm which makes them complain about their residues (Fama and Jensen, 1983). This reason continues that the main responsibility of the managerial team of the firm is to provide high returns to shareholders. However, why should an organization or a firm be responsible to increase the expense of residuals or providers of resources even if there are no claims from one or another individual resource provider? On the other hand, shareholders who provide and give good resources may also disagree.

Barney (2011) admits dealing with issues related to the measurement of organizational performance from multiple shareholders ideas is very crucial even though the steps involved might be very tedious. From a shareholder perspective, performance of metrics finance is very beneficial because they are special to all the core stakeholders of the business or firms (Barney, 2011).

Measures related to finance provides essential but less valued perception on creation, particularly when they are bounded to the efforts to express and identify events with reverence to the actual, and measurable financial outcomes within the shortest possible time. This helps to reduce the capability of management to think widely about what an organization wants to do to increase total value for stakeholders.

Performances determination and measurement via reasonable and non-reasonable factors that are very beneficial to the core shareholders as formulated herein helps organization to comprehend what stakeholders actually want and need.

If the capability to formulate and establish utility for stakeholders matters, and it is a core predictor of the organization or firm performance in the future, then it is significant to find new ways capturing more difficult value in a systematic and comprehensive fashion.

Furthermore, most of the financial performance measurements are so aggregated that they are not especially good in outlying problems within the business (Johnson& Kaplan, 1987). On the other hand, if an organization uses metric performance which actually track utility established by many shareholders, it is in perfect state to provide the possible sources of problems within the system of the organization that will reduce the amount of total value created.

2.9 Effectiveness of Internal Auditing Function and Financial Performance

Professionals of most internal audit argue that the functions of a good internal audit relates to an improved performance in finance. According to Beyanga (2011), an effective and efficient internal audit can enable the reduction of overhead, examine ways to improve efficiency and increase exposure of losses to safeguard organizations that do not have enough resources which have great influence on the financial performance of a firm.

Objectivity in the internal auditing shows the authenticity in the facts documented in the reports, and lack of bias affecting the reporting of the internal audit. The reports should not be biased.

Reports that are not objective would raise arguments among members of the firms which influence greatly on the performance of the organization. The reports of the internal audit department should be clear which would maximize the chance of action being taken by top managerial team of the organization

The capability of the internal audit to meet the deadline of issuing the report to the right unit of the organization is seen as timeliness (Al Matarneh, 2011). When the internal

audit department does not provide early report of the year, there could be preventable inefficiencies and firm processes could be affected negatively.

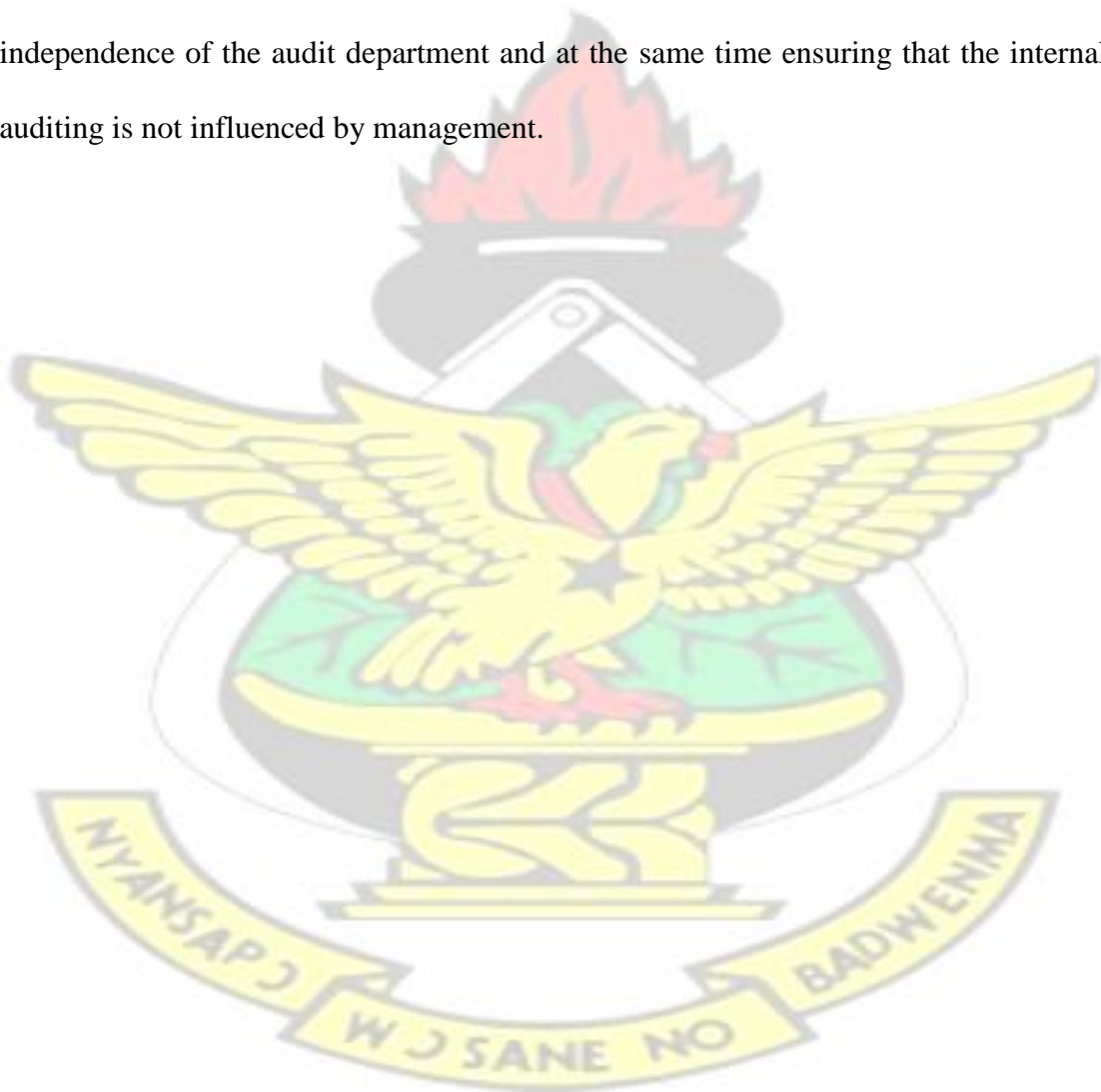
Fadzil et al (2005) noted that internal auditors help the organization to increase the value of the shareholders. Hermanson and Rittenberg (2005) also argued that the beginning of a workable internal audit role is related to the organizational superior performance.

Moreover, KPMG (1999) in its study determined that the internal audit function exist in organizations where it contributes greatly to improve performance and also helps to identify cooperation disasters, specifically fraud in finance, regularly records an association between weak governance. Thus, internal audit, watching carefully could rescue the firm or business from malpractices and corruption, hence helping the organization to achieve its aims and ensuring high production rate.

Completeness of a report indicates its comprehensiveness coverage of all the operational areas and indicative of all control areas. Comprehensive reports and assurances that the internal audit department provides to the management of the organization are expected to assure management and provide them with confidence that the internal controls and operational processes in the organization are sound and effective.

In order that the report of the audit provides complete and comprehensive insight to management about the internal controls in operation, it has to reasonably cover all areas of operations and be reasonably complete. If the report does not cover all the areas comprehensively, the report will not be very useful to management which could be detrimental to the organization's financial performance.

Internal audit reporting channels indicate whether or not the audit function reports to a position higher up in the chain of command. The standards of IIA on the independence of internal audit stipulate that a company's internal audit department should have a reporting relationship to a high level in the organization to ensure that it plays its assurance role properly. Having the audit reports channelled to a high level office is important to ensure that the reports are acted upon and that there is no conflict of interest to other offices. Having proper reporting channels is important in ensuring independence of the audit department and at the same time ensuring that the internal auditing is not influenced by management.



CHAPTER THREE

METHODOLOGY

3.0 Overview

This chapter deals with the methods and procedures used in carrying out this whole research enterprise. The chapter covers the study organization, research design, population of the study, sampling and sampling procedures, how data was collected and analyzed, and the reasons behind the various methods selected.

3.1 Research Design

The study adopted both the descriptive and exploratory research designs. According to Gravetter and Forzano (2006), the descriptive survey typically involves measuring a variable or a set of variables as they exist while the exploratory approach is employed when a research question is in its early or preliminary stages. In assessing the internal audit function and its challenges in rural banks, the descriptive approach was deemed most appropriate, since this study seeks to understand and establish the extent to which the audit functions are effective and not necessarily to show correlation between some other construct. The exploratory study design was used employing a case study research strategy.

3.2 Population

The target population for the study comprised the entire employees of Kumawuman Rural Bank Limited in the Ashanti Region of Ghana. The unit of analysis is the internal audit department of the bank. The staff strength of the rural bank as at 2015 was 120 (Osei, 2015).

3.3 Sample and Sampling Procedure

Basically, a sample is a sub-set of a population. The sample has properties which represents the whole. The sample size for the study was fifteen (15) employees of Kumawuman Rural Bank Limited. The simple random sampling technique was used to select the staff by writing their names on sheets of papers, which were folded and put into a bowl. The bowl was shaken and the folded pieces of papers were then picked at random without replacement one-by-one. The bowl was shaken to mix up the pieces of paper after each paper had been picked. The procedure was continued until the required number was obtained.

3.4 Research Instrument

There are multiplicity of research instruments that could be employed to gather evidence in the attempt to provide answers to a research question. In this study, questionnaires and an interview were used to gather the data. Questionnaire was the main instrument used in gathering primary data from the respondents of the bank. The questionnaire was deemed appropriate for the study because it provides a much quicker means of gathering information from a fairly large population. Again it is economical, easy to construct and questions are consistent and uniform. Questionnaire also allows anonymity of the respondents which makes it easier for the respondents to volunteer information without fear of victimisation (Gravetter & Forzano, 2006). However, in the view of Fraenkel and Wallen (2002), questionnaire is limited to literate population and does not provide an opportunity to collect additional information. Fortunately for this study, all the respondents were able to read, write and understand the items used in constructing the instrument. The questionnaire was structured based on numerical scale, using closed-ended items to elicit data from respondents with regard to their knowledge on the issues. In order that an in-depth understanding of the operations of the internal

audit unit of the bank will be gained, a face-to-face interview was also conducted with the head of the internal audit unit of Kumawuman Rural Bank Limited.

3.5 Data Collection

This study used both primary and secondary data. The primary data were collected through questionnaire administered to the staff of the bank which is usually appropriate for an exploratory like this, which uses a case study research strategy. An interview session was also held with the Head of Internal Audit Unit of the bank. The secondary sources were those from the review of existing literature mainly management books, articles, journals, both published and unpublished projects; internet, official records of the bank and Newspaper reports. According to Saunders et al. (2007), secondary data has been identified to be economical, and having the potential to give high quality of information with the possibility of retesting. The main secondary source of data was the bank's annual financial reports and the internal audit report.

3.6 Pre-testing

Sample study was conducted at the KNUST branch of Asante Akyem Rural Bank Limited, which exhibits similar characteristics, and mode of operations as Kumawuman Rural Bank Limited. The questionnaire was personally delivered to the respondents by the researcher with the help of a staff at the rural bank. One-week interval was allowed for the respondents to complete the questionnaires. All the 20 copies of the questionnaires administered were retrieved.

To improve the validity of the instrument, the researcher gave copies of the questionnaire to her colleagues at work for them to review and to check for the appropriateness of the items and their relevance to the issues raised.

These were done to improve the content, face and construct validities of the questionnaire. After all these exercises, the instrument was refined and administered for the main study.

3.7 Data Analysis

The extent of effectiveness of internal audit functions of the rural bank was measured using eight variables that reflected the functions that are to be performed by the audit unit which the respondents were asked to rank the extent to which those functions were carried out by the internal audit department. Respondents were also made to rank the extent of objectivity of the internal audit function; internal audit reporting channels; internal audit report completeness, and; timeliness of internal auditing. This was measured using a five point Likert scale. Variables were listed on a 5-point Likert scale and respondents were required to indicate their level of agreement on how these related to their bank.

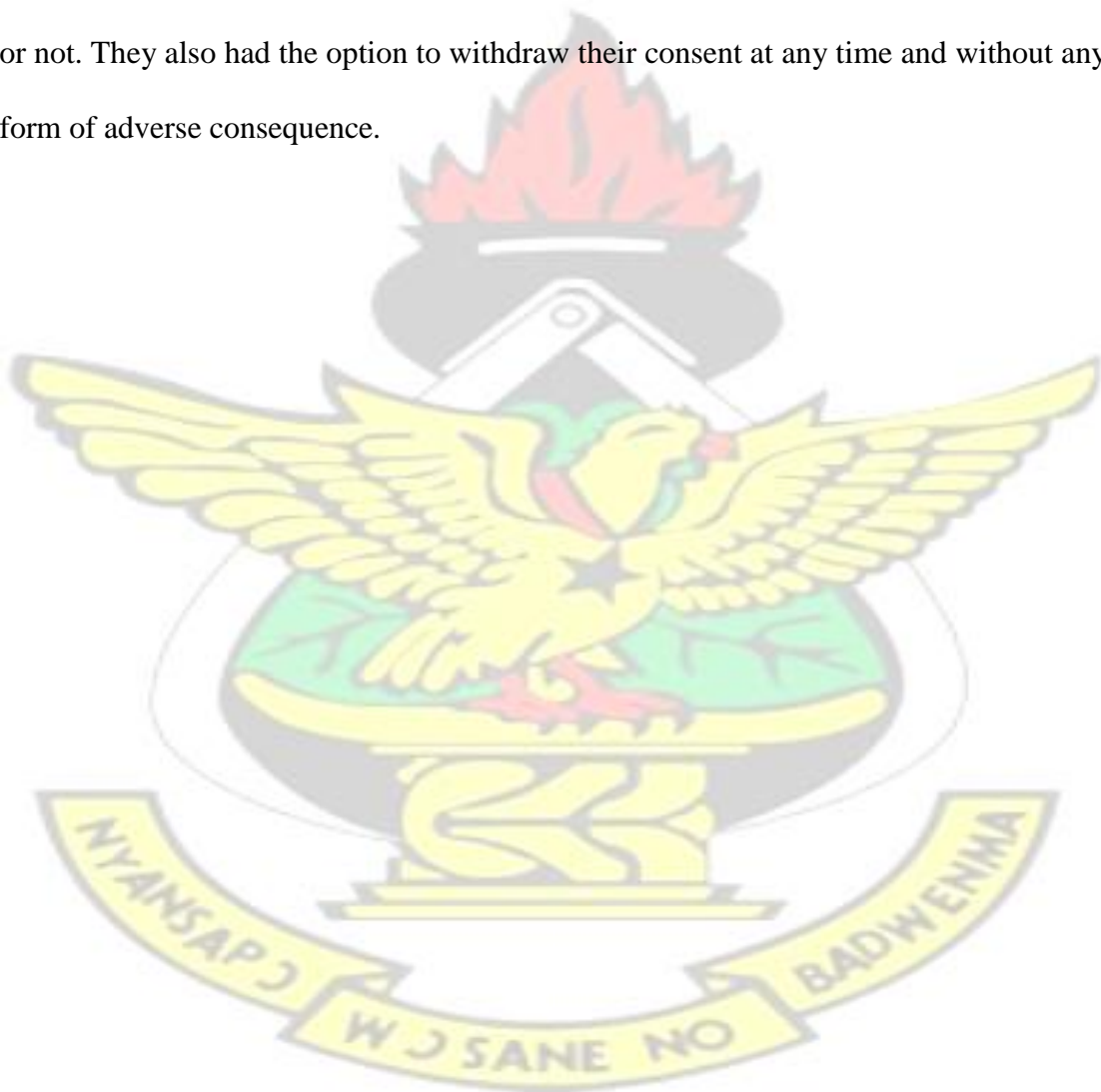
Analysis of data started with sorting out the questionnaires and establishing that they were correctly filled. All correctly answered questionnaires were considered for analysis. After sorting, the Statistical Package for Social Sciences (SPSS, Version 21) was used to code data from the questionnaires which aided in analysis statistics.

Descriptive statistics including percentages, mean scores, and frequency distributions were applied to data in nominal, ordinal and interval scales. This was data on age, gender, experience and educational qualifications.

3.8 Ethical considerations

To gather data from the sampled individuals, permission was sought from the management of the bank. Approval was also sought from the KNUST School of

Business. The consents of the bank's staff were sought through their respective superiors and the heads of the various units. Participants were informed about the purpose of the research and what objective it sought to achieve. The instructions and questions were read to them and clarifications were made where needed. After the researcher was sure that the staff understood the content very well, the questionnaires were administered. Respondents were encouraged to feel free and air their views as objectively as possible, and that they have the liberty to choose whether to be involved or not. They also had the option to withdraw their consent at any time and without any form of adverse consequence.



CHAPTER FOUR

RESULTS AND DISCUSSION

4.1 Introduction

In this chapter the results and discussion of the research study is presented. The purpose of the study is to assess the effectiveness of the internal audit unit of Kumawuman Rural Bank Limited in the performance of its functions. The chapter is organised as follows: first is presented the demographic characteristics of the respondents who took part in the study. The respondents of the study are all employees of the bank and have adequate knowledge of the performance of the internal audit unit. Secondly, the study seeks to establish the functions played by the internal audit unit of the bank. The chapter then proceeds to present and discuss the extent of effectiveness of the various functions performed by the internal audit department. Finally, the challenges that are encountered by the internal audit unit of the bank are discussed. The results presented here are obtained from 15 respondents which for the size of the bank is sufficient to reflect the nature of operation of the internal audit unit

4.2 Demographic characteristics of respondents

This section dwells on the demographic characteristics of the participants of the study of assessing the internal audit unit's functions effectiveness of Kumawuman Rural Bank Limited. In order of presentation are their sex, age distribution, and educational qualification. Also included are how long they have been in service with the bank. Examining these characteristics of individuals does not only help in the accuracy of the data but also provides a look at trends in these characteristics over time, most essentially it provides the basis for the analysis of the way these characteristics are associated to most of the other issues considered in this study.

4.2.1 Sex of respondents

In this subsection in figure 4.1 is displayed the percentage of females and males who participated in the study.

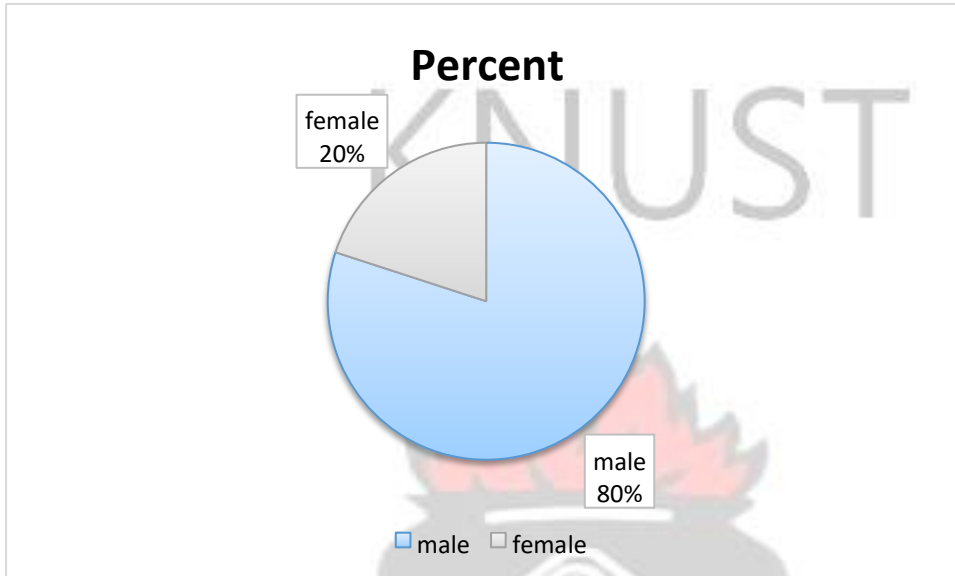


Figure 4.1 Sex of respondents

Source: Fieldwork, 2016

Figure 4.1 reveals the percentage gender composition of the respondents of the study. It is found as displayed that males represented the majority sex with a percentage representation of 80% as against 20% of the respondents who are females. Though the female sex is not adequately represented, this may be attributed to the nature of the rural banking environment.

4.2.2 Age distribution of the respondents

The bar chart in figure 4.2 presents the distribution of the ages of the respondents

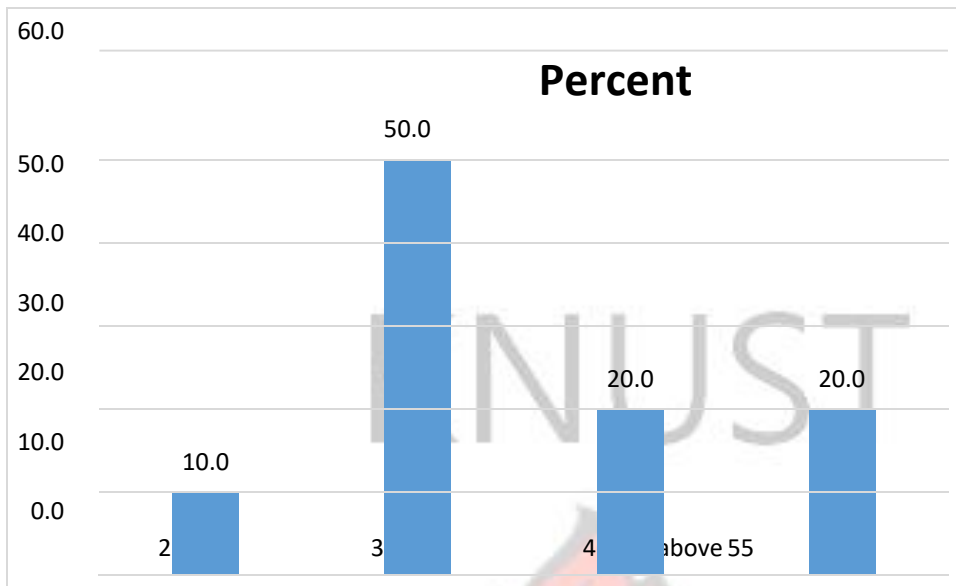


Figure 4.2 age distribution of respondents

Source: Fieldwork, 2016

Respondents were requested to indicate the age category within which they are. From the findings as displayed, 10% of the respondents are between the ages of 26 and 35. These are the least represented age group. The majority age category is the 36 to 45 age category which is composed of half (50%) of the respondents. The age category of 46 – 55 and those above 55 years are equally represented comprising of 20% each respectively. Though not well distributed, it indicates that most of the staff of the bank are matured and would be able to carry out the expected responsibilities.

4.2.3 Education Level of Respondents

One vital factor of performance is education. It is through education that employees are provided with the necessary skills and knowledge which enable them to increase labour productivity and effectiveness. Thus, education level is considered an important factor in this study. The educational qualifications obtained of the respondents are shown in figure 4.3 below.

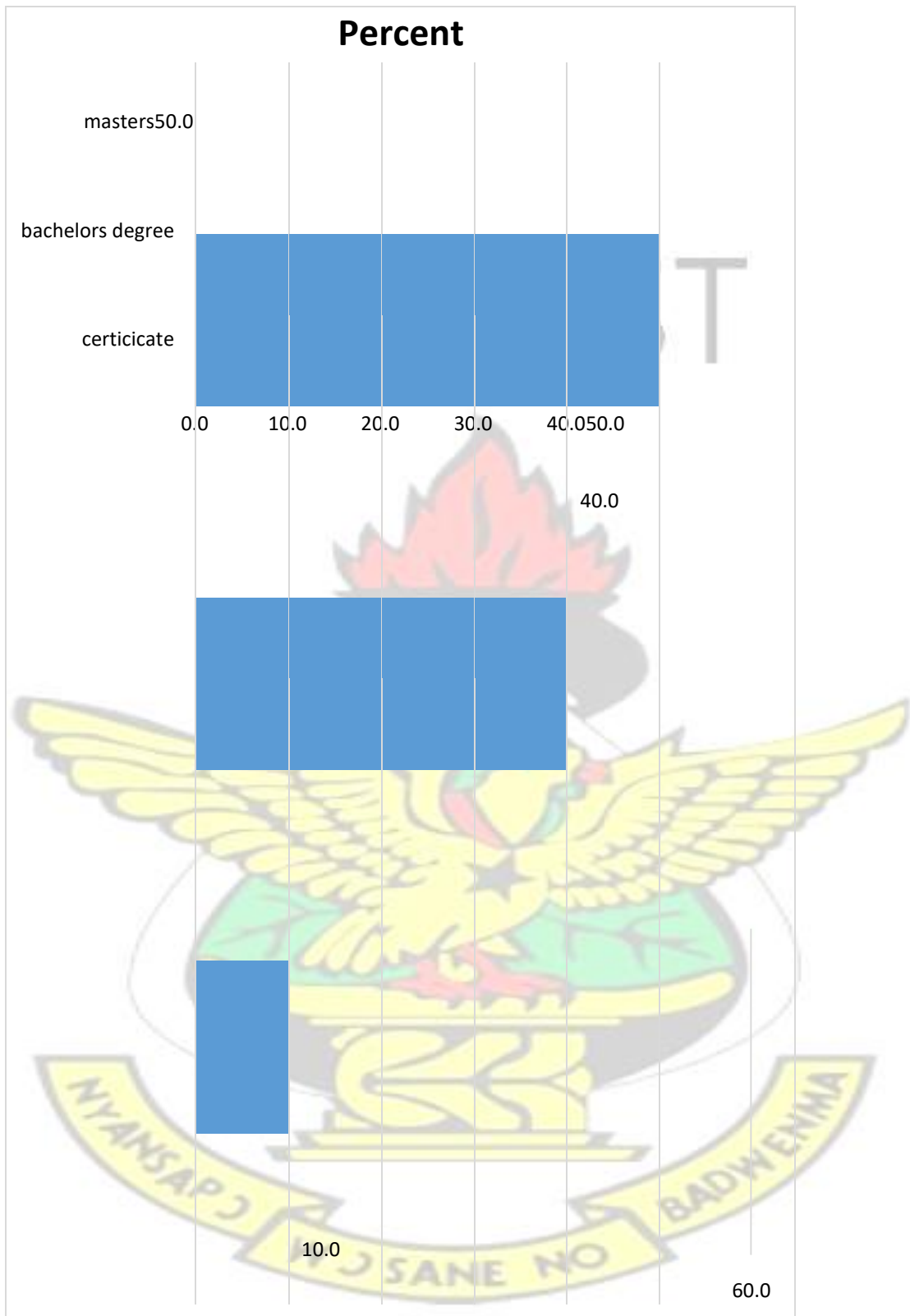


Figure 4.3 Educational level of respondents

Source: Fieldwork, 2016

The work in the bank is one that requires a good grounding in various competences. Depending on the particular department that one works with, bank personnel are expected to know and understand the rules, laws and regulations that govern the operations of banks. As part of complying with the regulatory framework of the banking industry is concerned, one major cause of non-compliance is unfamiliarity with, or misinterpretation of governing statutes or regulations. The high number of staff who have obtained educational level up to the master's level as shown in the figure indicated that there will be proper observance of such laws.

Of the educational qualification of respondents, the Internal Audit Unit (IAU) of the bank is composed of four (4) staff. Of these, the Head of Internal Audit has the qualification of Master's in Business Administration with specialisation in Finance.

He further has qualifications as an FFA and CeRGI. All the other staff members of the unit have obtained their first degrees with other professional qualifications. Two (2) members are currently undergoing their Master's degree in Business Administration.

4.2.4 Number of Working Years with the Bank

How long has a respondent been part of the bank? Number of years at service with the bank by the respondents are shown on figure 4.4.

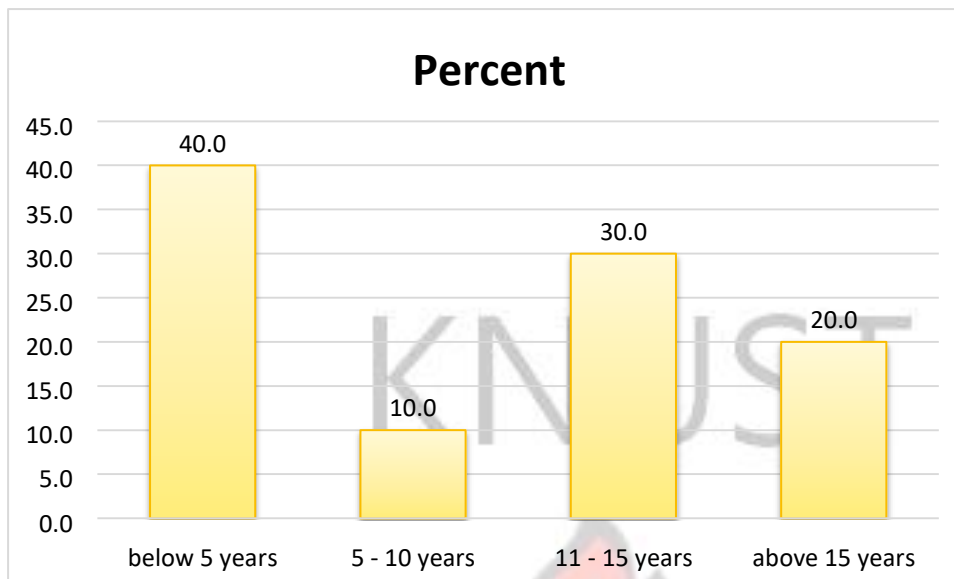


Figure 4.4 Number of Working Years with the Bank

Source: Fieldwork, 2016

Figure 4.4 shows that up to 60% of the staff of the bank have worked with the bank for a period of five years and above. Those who have worked with the bank for less than 5 years represented 40% of the respondents. 10% worked for the period of 5 to 10 years, 30% for the period of 11 to 15 years and those who have been in service for above 15 years are made up of 20% of the respondents. The distribution which implies that majority of the respondents had served for a considerable period indicates that most of the respondents had vast knowledge which could be relied upon by this study.

4.3 An Assessment of the Internal Audit of Kumawuman Rural Bank Limited

This section represents the crux of the study of assessing the effectiveness of the performance of the roles of the internal audit department of Kumawuman Rural Bank Limited. Effectiveness and efficiency measurements can be both quantitative and qualitative. In order to fully assess the IAU and its roles, this section employs both an objective and subjective assessment. The first four subsections evaluates the IAU using metrics such

as the percentage of audit plans completed; number of recommendations made and the number that were duly take up and implemented; and an analysis of the cost and benefits of maintaining the unit.

The IAU of the KRB Limited was instituted in 2010 by dint of the directive of the Bank of Ghana to establish IAs in rural banks in recognition of their prominence in the Ghanaian economy so as to regulate their functioning in order to improve their effectiveness. Since its establishment, the IAU of the bank has been up to task. The establishment of the department was not only to promote growth but also in recognition of the fact that, like other financial institutions, rural banks need to receive great scrutiny in order to protect depositors' funds and maintain financial stability.

The role played by internal auditing is critical to the governance and operations of the Bank. Internal auditing is a very key element in helping an organisation to realise its objectives when it is implemented, operated and managed effectively. The effectiveness of the IA, according to Norman (2013), is assessed from the perspective of the role the IA is supposed to perform. The question to be asked is whether the activities of the IAU contribute to adding value to the organisation?

As explicated in the IIA's definition of internal auditing, the role — and therefore the objective — of the activity should be 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."

Internal auditing is effective if it provides the audit committee and executive management with the assurance they need, that is, they can rely on the organization's processes and systems to manage risks to the attainment of the organization's objectives. That means providing assurance on the risks that matter to the organization today, in a form and timeframe that is valuable.

Risk management is fundamental to the long term survival and profitability of the bank and the IAU stands at the centre of this risk management process. There is an inherent risk in every material business activity of the bank. As a financial institution, the bank's operations expose it to such risks as credit, liquidity, operational and market risks. The IA plays a supervisory role in ensuring that the bank is not exposed to these risks. Below, analysis of the trend in the bank's liquidity risks is presented.

4.3.1 Liquidity Risk

Liquidity risk is the potential loss to the Bank arising from either its inability to meet its maturing short term obligations as they fall due or to fund increases in assets without incurring unacceptable costs. The management of this risk enables the Bank to minimise the mismatch in the timing of cashflows relating to its assets and liabilities and also ensures that it regularly maintains the primary reserve requirement of Bank of Ghana

Liquidity risk could occur if customers suddenly withdraw more funds than expected which cannot be met from the Bank's available cash resources, from selling or pledging assets, or by borrowing funds from third parties. The IA, through its liquidity risk management role has helped the bank to maintain sufficient liquidity to ensure safe and sound operations, and also minimise the mismatch in the timing of cashflows relating to its assets and liabilities.

Table 4.1 below represents the trend in the bank's exposure to liquidity risk as determined by the gap analysis of its assets and liabilities over a five year period from 2010 to 2014.

Table 4.1 Liquidity Risk Exposure of KRB Limited, 2010 - 2014

	2010 GHC	2011 GHC	2012 GHC	2013 GHC	2014 GHC
Total Assets	13,572,760.00	18,694,263.00	30,553,626.00	34,214,224.00	40,242,449.00
Total Liabilities	12,365,968.00	16,969,079.00	28,172,091.00	31,034,372.00	36,238,402.00
Liquidity Gap	1,206,792.00	1,725,184.00	2,381,535.00	3,179,852.00	4,004,047.00
Proportion of Assets to Liabilities	1.09	1.10	1.08	1.10	1.11

Source: Annual Reports, KRB Limited

As displayed in the table, the total assets of the bank have witnessed a steady rise over the years from a value of GHC13,572,760.00 in 2010 to GHC40,242,449.00 in 2014 representing a 196.5% increase in assets. On the other hand, even though the total liabilities have also been on the rise, the gaps in liquidity between the assets and liabilities have been increasing. The liquidity gap in 2010 was GHC1,206,792.00 and this metric has been on rise over the years. 2014 recorded a gap in liquidity of GHC4,004,047.00 representing 231.8% increase. An inspection of the ratio of assets to liabilities of the bank indicates that the bank has consistently maintained an acceptable exposure to liquidity risk. As at end of 2014, proportion of assets to liabilities was 1.11. The stability in the bank's exposure to liquidity reflects the risk management role of IA

which ensures that the bank maintains sufficient liquidity to achieve safe and sound operations and minimise mismatch in the timing of cash flows.

4.3.2 Percentage of audit plan completed

In figure 4.5, is displayed the percentage of audit plan completed by the department over the years. The figure shows that in 2011, the audit unit was able to complete 70% of its planned schedule. There was a decrease in percentage of the completed planned to 65% in 2012 which later rose to 80% in 2013. In 2015, the audit department completed 85% of the engagements in its audit plan as compared to the previous year of 78% in 2014. Though there are gaps in the attainments of the annual plans of the IA, a 100% achievement of the plans of the IA does not necessarily imply that the IA is being effective in its activities. Norman Marks argues that completing all the proposed activities of the IA has implications that the unit —continued to remain glued to their plan even when risks changed. That will mean that the unit has failed to audit what is relevant in the present circumstances as they changed but rather blindly continued to audit what used to matter.

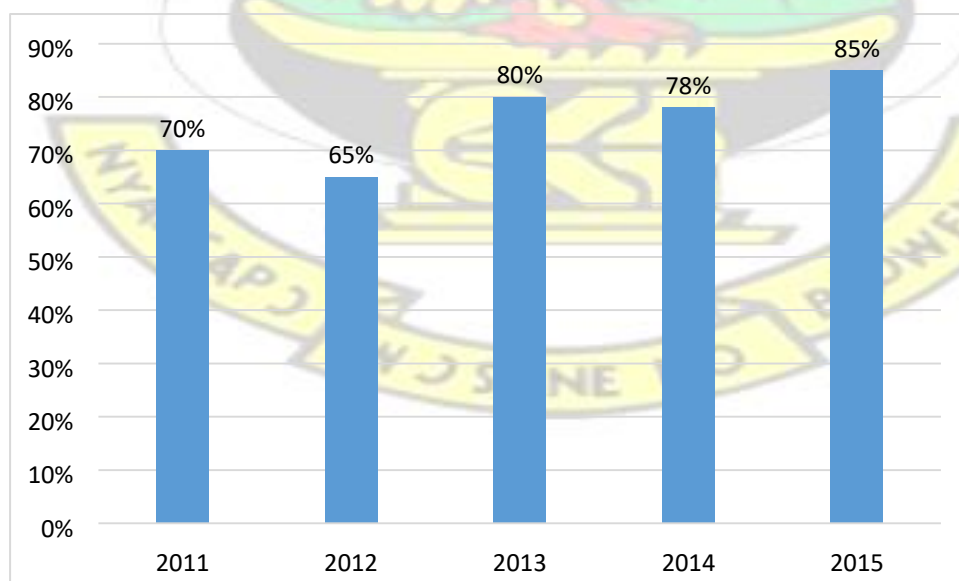


Figure 4.5 Trend in percentage of completed Internal Audit Plan

Source: Internal Audit, KRB Limited

4.3.3 Recommendations by the Internal Audit Unit

Another important metric for determining the effectiveness of the internal audit is by assessing the number of recommendations it makes to management and the number of these recommendations which are accepted and implemented. Figure 4.6 displays the number of recommendations made by the IA of the bank over the years and the corresponding numbers that were accepted and implemented by the management of the bank.

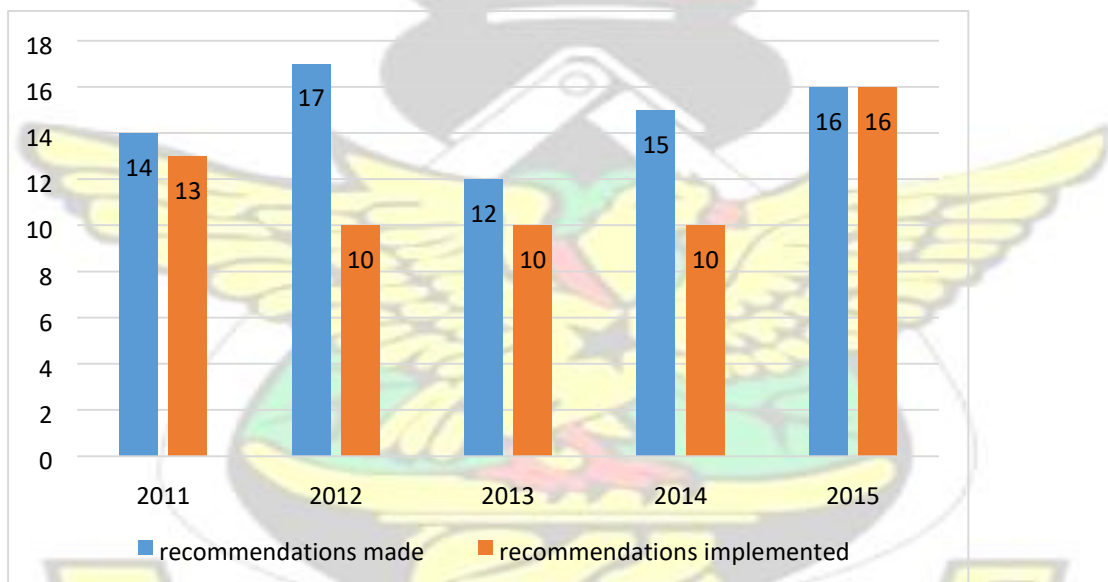


Figure 4.6 Number of Recommendations Made and Implemented

Source: Internal Audit, KRB Limited

In 2011, the internal Audit Unit made 14 recommendations to the Board of Directors. Of these, 13 of them were accepted and duly implemented. This represented a 93% acceptance rate. In 2012, out of the 17 recommendations made by the IAU to the Board of Directors, only 10 were implemented, representing an abysmal implementation rate

of 59%. 10 recommendations were implemented in 2013, out of the total of 12 offered to the board. In 2014, the IAU made 15 recommendations to the Board, however 10 of these were duly implemented, representing 66% implementation rate. In the year 2015, all the recommendations made by the IAU were duly accepted and implemented, recording a 100% rate of implementation. The number of recommendations made were 16.

The high defect rates recorded for 2012 (41%), 2013 (16.7%) and 2014 (33.3%) are of concern and pose questions as to whether the internal audit was getting the recommendations wrong. Were the recommendations ignored because they failed to make practical business sense? Or was it that the internal audit unit was not able to persuade management to carry out the change? Per the opinion of Norman (2013), a defect rate of 10% calls into question the quality of the audits and reports thereof of the IAU.

Notwithstanding the poor implementation rate, the full implementation of all the 16 recommendations offered by the IAU in 2015 suggests the appropriateness of the recommendations and reflects the improvement in the quality of the IA and thereby its effectiveness of making recommendation for improvement of the operations/programmes embarked by the bank.

4.3.4 Cost and Benefits of Maintaining the Internal Audit

Besides the discussions made above, this section employs a cost-benefit analysis of the existence of the IA to assess its value to the bank. The value that accrues to the bank as a result of the internal audit is not necessarily financial. IA adds value to the bank through its role as a change agent, offering recommendations for improvement which are accepted and acted upon by management. The value created by the IA is the

assurance it offers the management of the bank that processes and systems it relies on for the running of the bank are working properly. The peace of mind to operate without worrying is the greatest value provided by the internal audit unit of which it is not numerically possible to quantify.

Besides this value of the IA to the bank, there are those activities of the IA that have direct fiduciary benefit to the bank. Investigation of reports on fraud and other malpractices which pose a direct loss to the bank, when successfully carried out and the stolen monies retrieved, serve as a direct benefit to the bank. Table 4.2 below presents amounts of money retrieved by the IA attributable to fraud compared to the cost incurred by the bank for maintaining the IA from 2010 to 2015.

Table 4.2 Costs and Benefits Analysis of Maintaining the Internal Audit Unit

Year	Money from Fraud committed	Basic Annual Salary	Employers' Contribution	Clothing and Bonus	Sub-Total	Difference
	A	B	C	D	E=B+C+D	A-E
	GhC	GhC	GhC	GhC	GhC	GhC
2010	-	6,500.00	1,300.00	1,625.00	9,425.00	-9,425.00
2011	49,350.00	30,167.19	6,033.44	7,541.80	43,742.43	5,607.57
2012	-	39,192.34	7,838.47	9,798.09	56,828.90	-56,828.90
2013	70,458.17	41,161.80	8,232.36	10,290.45	59,684.61	10,773.56
2014	3,772.00	58,339.35	11,667.87	14,584.84	84,592.06	-80,820.06
2015	674,908.00	64,785.85	12,957.17	16,196.46	93,939.48	580,968.52
TOTAL	798,488.17	233,646.53	46,729.31	58,411.64	338,787.48	459,700.69

Source: Internal Audit, KRB Limited

By way of summarising the table, the total financial benefits that accrued to the bank as a result of the IA's investigation and retrieval of committed fraud as at 2015 for the

period under consideration stood at GHc459700.69. This amount represents the difference in the total fraud retrieved which represents a benefit and the cost of maintaining the IA by way of salary and other incentives.

The Internal Audit of KRB Limited was established in 2010, as a requirement by Bank of Ghana to all banks including rural banks to establish an Internal Audit unit.

As a result, Kumawuman Rural Bank Limited decided to establish the Internal Audit Unit to satisfy the requirement. Though, the bank spent on the unit in terms of salary, employers' contribution, and other staff cost; there was no contribution made by the unit in terms of financial savings. This is because the bank just filled the unit with existing staff who were not qualified enough to perform the internal audit function. A total of GHc9,425.00 was incurred as the cost expended on the unit

Early part of 2011 witnessed a turnaround for the internal audit unit; when the bank employed 3 qualified personnel to undertake the activities of the unit. Their expenditure was on pro-rata basis, since some left and others were employed into the department. The newly employed audit staff worked tremendously and was able to retrieve up to GHc49,350 for the bank which was as a result of fraudulent activities. The bank in turn expended GHc43,742.43.

In the year 2012, the department did not record any fraudulent activity. This was because the staff were deterred from the exercises conducted by the internal audit staff. The increasing expenditure of GHc56,828.90 of the internal audit unit was a result of yearly increment stated in the budget.

In 2013, the department was able to retrieve GHC70,458.17 and the bank spent GHC59,684.61, while in 2014, the department retrieved GHC3,772.00 at the expense of GHC84,592.60

In 2015, the highest amount of fraudulent activities was recorded. The internal audit unit retrieved GHC674,908.00 from fraudulent activities. The GHC674,908.00 consisted of fraudulent activities by senior officers, other clerks and mobile bankers. As at now, the Internal Audit Unit has saved GHC459,700.69 for the bank, which can be invested to earn interest of Treasury Bill Rate; which then can be an additional income to the bank. Thus, the Internal Audit Unit has retrieved GHC798,488.17 for the bank, and the bank spent in return GHC338,787.48.

In addition, the internal audit unit has helped the credit department to discover unauthorized facilities of GHC2,598,007.69, which the credit departments with its able-bodied staff are working towards retrieving that money for the bank.

This implies that the bank derives great advantage as a result of the existence of the IA. That is, besides the value of providing reasonable assurance for the smooth running of the bank which cannot be numerically quantified, financially the IA has contributed directly to the performance of the bank more than the cost of maintaining it.

4.3.5 Staff perception of the effectiveness of the IAU functions

The statements listed in table 4.3 represent functions that are to be performed by the internal audit unit of every organisation. Respondents who are staff of the bank were asked to rank the extent of effectiveness to which these functions are being carried out by the internal audit unit. This is meant to provide a subjective assessment from the

perspective of the staff. With a scale of 1 through to 5 representing very ineffective, ineffective, average, effective and very effective respectively, the table 4.3 shows the results obtained from their responses.

Table 4.3 Internal Audit function Effectiveness

	2	3	4	5	Mean	S.D
Verification of the existence of assets and providing recommendations of proper safeguards for their protection	0	2	7	6	4.2667	.70373
Assessing the banks compliance with laws that govern the operations of rural banks in Ghana.	0	0	12	3	4.2000	.41404
Assessing the banks compliance with the set internal policies and procedures and sound business practice	0	1	12	2	4.0667	.45774
Reviewing the operations/programmes embarked by the bank to ascertain results are consistent with established objectives and whether the operations/programmes are being carried out as planned [risk management roles]	0	5	5	5	4.0000	.84515
Investigating reports of occurrence of fraud, theft and other malpractices	0	0	4	11	4.7333	.45774
Auditing and reporting of the financial statements of the various branches of the bank	3	7	3	2	3.2667	.96115
Assessing the adequacy of the internal control of the bank	0	3	6	6	4.2000	.77460
Making recommendation for improvement of the internal control of the bank	0	0	4	11	4.7333	.45774

Source: Fieldwork, 2016

A quick inspection of table 4.3 based on the responses gathered shows that the Internal Audit Unit of the bank has been up to task in delivering its various mandates. Particularly, the internal audit is indicated to be quite effective in verifying the existence of the bank's assets and making available proper safeguard recommendations for the protection of those assets. This is shown to be the mean of 4.27 on the table. Ascertaining asset existence and proper functioning and prevention of abuse of such assets is one key role executed by the internal audit. It is the responsibility of internal audit for setting up the Asset Management policies of the bank as well as reviewing the adequacy of such Asset Management policies and processes as they relate to tracking and monitoring, recording and reporting, and disposing of fixed assets. The internal audit is responsible for maintaining an adequate system of internal control to ensure the accountability, safekeeping, maintenance, and proper use of state property and verify that the internal control system continues to function effectively as designed (Hawaiian Revised Statutes, 2009)

On assessing the bank's compliance with the laws and regulations that govern the operations of rural banks in Ghana, the results show that the internal audit is effective in performing this function as reported by the mean of 4.2 on the table. Banks do not work in isolation, neither do they work without regulations. As incorporated financial institutions, banks, including rural bank operate within an established framework of laws and regulations based on state statutes, regulations, and administrative rulings. The purpose of these laws and regulations are to serve as protection for the public (i.e. depositors, consumers, investors, creditors, etc.) through the establishment of operational standards and consumer protections for the banking industry. Noncompliance and violations can therefore reflect negatively on a bank's board of directors and management and can expose the bank to financial and other risks (FDIC,

n.d). As indicated earlier in section 4.2.3 on the educational qualification of the staff, the ability of the internal audit to ensure compliance with regulation could be explained by the level of education of the staff.

The internal audit unit is shown to be effective in its assessment of the banks observance of the set internal policies, procedure and sound business practice with a mean score of 4. Organisations and for that matter banks are systems that require policies to be implemented to govern how they operate in the quest of achieving their set objectives. The proposed policies and procedure have to be observed of which the internal audit unit stands at the centre.

Risk management of the bank is very key to the survival of organisations especially of financial institutions. The internal audit is responsible for management of risk of the bank. This is done by way of reviewing and assessing the programmes and operations of the bank to ascertain that the projected results and outcomes are consistent with the established objectives. The internal audit also have overhead responsibility of making sure that proposed operation/programmes are carried out as planned. The results of the study show that the internal audit of the Kumawuman Rural Bank Limited is effective in performing this role. This is shown by the mean of 4 on table 4.3

The internal audit is also effective in its role of investigating reports of occurrence of fraud, theft and other malpractices as shown by the mean of 4.7. This is one of the roles that is observed to be very effectively performed by the audit unit.

The least effective role performed by the bank's internal audit is the auditing of the financial statements of the various branches of the bank. This is reported with a mean rank of 3.27 as displayed in table 4.3. Kumawuman Rural Bank Limited established in

1982 has expanded and currently has 11 branches. However, there is only one internal audit unit of the bank that oversees the internal controls of all these branches. The least effectiveness of this function may be reflective of the workload on the unit to audit these branches. From the interview with the head of the audit team, it was noted that it can take up to 2 weeks to successfully audit a branch.

The internal audit unit is effective also in playing its role of overseeing the internal controls of the bank. This is shown with the mean rank of 4.2 on the table. Internal control which is rather a broad concept encompasses some of the functions already discussed above. Adams, Cutler, McCuaig, Rai, and Roth (2012) define internal control as a process for assuring achievement of an organization's objectives in operational effectiveness and efficiency, reliable financial reporting, and compliance with laws, regulations and policies. Internal control also has elements of fraud detection and prevention as well as safeguarding the assets of the organisation.

The last of the functions considered in this study is the internal audit's role of proffering recommendations aimed at improving the overall internal control of the bank. This function is also found to be very effective as shown by the mean rank of 4.73.

Based on the preceding discussion, it can be concluded that the internal audit of Kumawuman Rural Bank Limited is effective in delivering its functions.

Following are the discussions on certain aspects of the reports of the internal audit of the bank. These include issues on the objectivity, channels, timeliness and completeness of the internal audit reports.

4.4 Objectivity of the reports of the internal audit

Responses on the objectivity of the reports of the internal audit of the bank are presented in table 4.4 below.

Table 4.4 Objectivity Ranking of Audit Reports

	SD	D	U	A	SA	Mean	S.D
The comments and views expressed in internal audits are biased	12	3	0	0	0	1.20	.414
Internal auditing activities at Kumawuman Rural Bank Limited are based on hearsay, subjective judgment or witch-hunting	7	5	3	0	0	1.73	.799
Internal audit reports raise disputes and discontent among the bank staff	5	7	3	0	0	1.87	.743
The activities of the internal audit department are based on facts and can be authenticated	0	0	0	5	10	4.67	.488
The staff unanimously accept internal audit reports and take positive steps towards acting on the reports	0	0	1	12	2	4.07	.458
Internal auditing at Kumawuman Rural Bank Limited provides reports with verifiable and supporting documents	0	0	0	6	9	4.60	.507

SD = strongly disagree, D = disagree, U = undecided, A = agree, SA – strongly agree

Source: Fieldwork, 2016

From the IIA: —Specifically, the internal auditor should report to executive management for assistance in establishing direction, support, and administrative interface; and typically to the audit committee for strategic direction, reinforcement, and accountability. The internal auditor should have access to records and personnel as

necessary, and be allowed to employ appropriate probing techniques without impediment. Objectivity is a mental attitude that internal auditors should maintain while performing engagements. To maintain objectivity, internal auditors should have no personal or professional involvement with or allegiance to the area being audited; and should maintain an unbiased and impartial mindset in regard to all engagements.¶

On the objectivity of the reports by the internal audit of the bank, it can be on inspecting the results on table 4.4 that the reports are objective. The first three statements which are negatively stated is shown to yield low means of 1.2, 1.7 and 1.9 respectively in the order of appearance. The remaining positively framed statements conversely show high mean ranks of 4.7, 4.1 and 4.6 respectively in order of appearance on the table. This is indicative of the fact that the reports of the internal audit are based on authenticable facts and unanimously accepted by the stakeholders of the bank.

4.5 Reporting channels

In table 4.5 below are the results on the channels of reporting by the internal audit unit.

Table 4.5 Reporting Channels of the internal Audit

	SD	D	U	A	SA	Mean	S.D
There are clear channels of reporting for internal audit that are simple and straightforward	0	0	0	8	7	4.47	.516
Internal audit reports are provided to the highest office of the bank	0	0	0	4	11	4.73	.458

The internal audit department at Kumawuman Rural Bank Limited reports findings openly without any fear	0	0	2	6	7	4.33	.724
The internal audit department shows independence in their reporting	0	0	0	7	8	4.53	.516

SD = strongly disagree, D = disagree, U = undecided, A = agree, SA – strongly agree

Source: Fieldwork, 2016

Results from table 4.5 indicate that the channels of reporting by the internal audit are transparent and reported to the appropriate authority. The mean rank to the responses of the statements have shown high level of agreement with 4.3 being the least of such agreement means.

4.6 Timeliness of report

Table 4.6 shows the results on the timeliness of the reports of the internal audit.

Table 4.6 Timeliness of reports

	SD	D	U	A	SA	Mean	S.D
Internal audit reports are released promptly and immediately after the audit is concluded	0	0	0	13	2	4.13	.352
Internal audit reports are timely which enables management to prevent risks and losses	0	2	0	11	2	3.87	.834

Internal audit reports are timely compiled and circulated to all relevant authorities after completion of the audit	0	0	0	12	3	4.20	.414
If there is any expected delay in internal audit reporting, this is communicated to the relevant authorities and the effect of this delay assessed	0	0	5	7	3	3.87	.743

SD = strongly disagree, D = disagree, U = undecided, A = agree, SA – strongly agree

Source: Fieldwork, 2016

Statement on promptness of release of audit report immediately the auditing is completed shows a mean agreement of 4.1. This can safely be concluded that the internal audit is prompt in their delivery of the auditing results. There is also agreement on the timely compilation and circulation of the audit reports to the relevant stakeholders. This is represented with a mean agreement of 4.2. Communication on expected delay of reports and the ability of the management to use the reports for decision-making has recorded rather similar low mean agreement of 3.9. In all, timeliness of reporting of results is quite effective.

4.7 Completeness of audit report

Table 4.7 shows the responses on the completeness of the report by the audit team.

Table 4.7 Completeness of Audit Report

	SD	D	U	A	SA	Mean	S.D
Internal audit department has enough information to enable management make informed decisions on internal control	0	0	0	10	5	4.33	.488

The internal audit reports of the bank are comprehensive	1	0	0	10	4	4.07	.961
Internal audit department provides comprehensive reports and assurances to the management of the bank	1	0	0	10	4	4.07	.961
Internal audit reports reasonably cover all areas of operations and are reasonably complete	0	0	1	9	5	4.27	.594
Internal audit department has an analysis of the control weaknesses that are significant	0	0	1	11	3	4.13	.516
Internal audit department provides an assessment of the entire effectiveness of risk, governance and controls that the organization has put in place	0	0	1	9	5	4.27	.594

SD = strongly disagree, D = disagree, U = undecided, A = agree, SA – strongly agree

Source: Fieldwork, 2016

Results from the study show that the reports presented by the internal audit are adequately complete. Each of the statement listed in table 4.7 shows a mean agreement above 4 which is indicative enough that the reports of the internal audit are comprehensive in their coverage of the necessary and relevant information for the benefit of the bank.

4.8 Challenges to the internal audit department

This is the final section of the chapter and presents and discusses the challenges of the internal audit department of Kumawuman Rural Bank Limited. Just as any other unit or department, the internal audit is also encountered with some challenges though this may come at different gradations. Table 4.8 shows the results of the extent to which the following challenges are experienced by the internal audit unit of the bank.

Table 4.8 Challenges of the internal Audit Unit

	1	2	3	4	5	Mean	SD
Inadequate logistics	5	8	2	0	0	1.8000	.67612
Low level of competence/professionalism	8	7	0	0	0	1.4667	.51640
Interference from top management	7	5	3	0	0	1.7333	.79881
Work overload due to a lot of branches to audit	1	0	4	6	4	3.8000	1.08233
Inadequate fund allocation	3	6	6	0	0	2.2000	.77460
Data/information incompleteness, unavailability or inaccessibility	0	3	6	2	4	3.4667	1.12546

Source: Fieldwork, 2016

Notable among the challenges in table 4.8 are work overload on the internal audit due to the need to attend to the many branches of the bank and the incompleteness, unavailability or inaccessibility of required information. These have respective mean ranks of 3.8 and 3.5 in a 1 to 5 ranking scale. The recognition of work overload here on the audit unit as a challenge points back to the low mean rank effectiveness recorded for the audit function of auditing and reporting the financial statements of the branches of the bank in section 4.3. The audit process consists of several stages of planning (sometimes called survey or preliminary review), fieldwork, audit report, and follow-up review (Lessambo, 2014). As noted earlier, Kumawuman Rural Bank Limited has expanded to 11 individual bank branches of which the internal audit is responsible to audit all (interview report). The branches are situated at different locations which are far apart from one another making the team to incur more costs not only for the transportation, but also for the whole project (papers, printing, phone calls etc.).

According to Ghazie (2015), preparation of information in the right format and documentation is one of the challenges faced by auditors. Clients usually provide information which is inadequate and incomplete to the requirement of auditors.

Again, it is noted in the interview with the head of the audit team that some —staff are sometimes reluctant to give information to the audit making the information inaccessible for auditing purposes.

The results show that challenges with respect to the inadequacy of logistics was not very much of a problem though this recorded a mean score of 1.8. The audit is shown to be professionally competent regarding their handling of the roles. This is shown by the least of the mean rankings of 1.4. The educational qualification of the respondents was observed to be high where majority of them have attained up to the master's level. With this level of education, the professional competence of the internal audit to handle the demands of the various tasks cannot but be effective. The work experience also could serve to raise the professionalism of the audit team as up to 60% of the respondents were indicated to have worked with the bank for more than 5 years. The internal Audit Unit of the bank is composed of four staff. Of these, the Head of Internal Audit has the qualification of Master's in Business Administration with specialisation in Finance. He further has qualifications as an FFA and CeRGI. All the other staff members of the unit have obtained their first degrees with other professional qualifications. Two (2) members are currently undergoing a Master's degree in Business Administration.

Inadequate fund allocation to the internal audit is not also a challenge to the operations of the unit. Inadequate funding is one of the key challenges that is commonly reported to be facing internal audits in performing effectively. According to Busee (2013) who

did a study on factors affecting the effectiveness of the Internal audit in business risk management in the Private sector in Tanzania, inadequate fund and lack of adequate material resources among other inadequacies were the challenges facing auditing staff. Similar results are reported by Baltazari (2013), Sosthenes (2013) and Agyemang Owusu, Antwi Adjei, Tsogbe Elorm, AsareBediako, and Ntow Anima (2013) who have noticed that most internal audits both private and public alike are inadequately financed.



CHAPTER FIVE

CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter is the concluding part of the study and provides a summary of the major findings, conclusion and recommendations in relation to the stated purpose of assessing the effectiveness of the internal audit unit of Kumawuman Rural Bank Limited in the performance of its functions. It also gives suggestions on areas for further studies. Specifically, it was attempting to answer the following questions.

What are the function performed by the internal auditing department of Kumawuman Rural Bank limited? To what extent are these functions being carried out effectively? And what are some of the challenges facing the internal auditing department in carrying out their duty?

5.2 Summary of Findings

Recent years have witnessed a growing recognition of the important role of internal auditing in business risk management in organizations of which rural and community banks are no exception. Organizations are faced with numerous problems that are mitigating their effectiveness in conducting internal audit in Ghana, notable among them are, inadequate competent audit staff, inadequate fund, lack of adequate material resources. This study therefore aimed to assess the effectiveness of the internal audit unit of Kumawuman Rural Bank Limited in the performance of its functions. The study used both primary and secondary sources of data gathered through questionnaires and interviews.

The respondents of the study were made up of 15 individuals, with 20% females and

80% males with majority of them within the 36 – 45 age bracket. 50% were master's degree holders, 40% with bachelor's degree and the remaining certificate holders. Most of the respondents representing 60% were employed with the bank for up to 5 years and more.

The results from the study indicate that the internal audit unit of Kumawuman Rural Bank Limited is effective in performing its conceptual aim of auditing. According to the findings of the study, the leading responsibility of internal auditing of reviewing the quality and effectiveness of the controls within the bank to manage and mitigate risk and protecting and safeguarding the assets of the bank are effectively performed. In performing this work, internal audit provides recommendations and advice to management on matters requiring attention.

The result also shows that the internal audit unit is effective in its overseeing role of ensuring the bank's compliance with the laws and the general regulatory framework of banks in the country and also in its role of assessing the banks observance of the set internal policies, procedure and sound business practice. The internal audit with the overhead responsibility of making sure that proposed operations/programmes are carried out as planned is found to be effective at reviewing and assessing the programmes and operations of the bank to ascertain that the projected results and outcomes are consistent with the established objectives.

It was also found that the internal audit unit is effective not only at investigating reports of occurrence of fraud, theft and other malpractices but that, it as well proffers relevant recommendations aimed at improving the overall internal control of the bank.

The internal audit was found to be lagging in its auditing of the financial statements of the various branches of the bank and this was attributed to the large number of branches which are dispersed at multiple locations and therefore makes it difficult for the audit unit to effectively reach them within the acceptable time.

Investigation into the objectivity of reports of the audit was indicative that the reports of the internal audit are based on authenticable facts and unanimously accepted by the stakeholders of the bank. The channel of reporting by the internal audit unit was also noted to be transparent and reports directed to the appropriate authority. Speed of delivery of reports of audit was considered to be timely and comprehensive in terms of completeness of coverage of the necessary and relevant information for the benefit of the bank.

Finally, the audit department, according to the results is shown not to be faced with many challenges except for the high workload imposed as a result of the large number of branches which have to be attended to and the challenges associated with obtaining the relevant information which sometime are either inadequate, unavailable or inaccessible.

5.3 Conclusion

Development of internal audit units and recognising them as value added function will improve the governance system resulting to the growth and development of the rural banking economy. Strong system of internal control ensures proper management of risks which are less likely to result into organization failures or collapse of economy (Chijoriga, 1997; Felix Ayadi et al., 2008).

Based on the findings of the study, the following recommendations are provided.

The internal auditors of the bank should be given freedom to perform their work independently and not be restricted from access to the relevant information.

There is the need for sufficient management support on education and on job training in order to expose the internal auditors to the new developments in the auditing profession to help improve the effectiveness of internal auditing in Kumawuman Rural Bank Limited.

It is also recommended that auditing should be continuously embarked in the bank and not be done after prolonged periods of time as this will serve to improve the conceptual aim of auditing. According to Busee (2013), continual auditing allows for early detection and correction of fraud and errors.

It is also here recommended that the internal auditing staff be adequately motivated and honoured not only for keeping them from becoming corrupt but also in recognition of the role they play at ensuring good governance and internal controls.

Finally, the size of the audit department should also be increased in terms of number of staff in order to meet up with the growing demands of the various branches. This will enable auditing to be carried out effectively and in a timely manner.

5.3 Recommendations for further studies

The researcher recommends further research to be carried out to determine the effect of the internal audit function on the financial performance of Kumawuman Rural Bank Limited; also a further study should be conducted on all Rural Banks in the country to develop a general idea on the assessment of the internal audit

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APPENDIX I

KWAME NKRUMAH UNIVERSITY OF SCIENCE AND TECHNOLOGY,

KUMASI

SCHOOL OF BUSINESS

DEPARTMENT OF ACCOUNTING AND FINANCE

Questionnaire for Staff of Kumawuman Rural Bank Limited

I wish to introduce myself as a Master of Business Administration (MBA) student at the School of Business, Kwame Nkrumah University of Science and Technology. As part of my study, I am required to write a thesis with the title —**The Assessment of Internal Audit Unit of Kumawuman Rural Bank Limited**”. This study is completely confidential and your responses to this questionnaire will remain anonymous. Whatever you indicate will be used for the intended purpose only and will remain confidential. Do not write your name on this questionnaire.

Put a tick (✓) where relevant.

SECTION A: DEMOGRAPHIC INFORMATION

1. Age

- a. Below 25 years []
- b. 26 – 35 years []
- c. 35 – 45 years []
- d. 46 – 55 years []
- e. Above 55 years []

2. Gender Male [] Female []

3. What is your highest Educational Qualification?

- a. Certificate []

- b. Diploma []
- c. Bachelors degree []
- d. Masters degree []
- e. Doctorate []
- f. Others []

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4. How many years have you worked with Kumawuman Rural Bank Limited?

- a. Below 5 years []
- b. 5 – 10 years []
- c. 11 – 15 years []
- d. Above 15 years []

SECTION B: FUNCTION OF THE INTERNAL AUDIT DEPARTMENT

Which of the following have you observed to be the functions/roles performed by the internal audit department of the Kumawuman Rural Bank Limited and to what extent do you think they are effective in performing such functions.

1 = very ineffective, 2 = ineffective, 3 = average, 4 = effective, 5 = very effective

Function/role	1	2	3	4	5
Verification of the existence of assets and providing recommendations of proper safeguards for their protection					
Assessing the banks compliance with laws that govern the operations of rural banks in Ghana.					
Assessing the banks compliance with the set internal policies and procedures and sound business practice					
Reviewing the operations/programmes embarked by the bank to ascertain results are consistent with established objectives and whether the operations/programs are being carried out as planned [risk management roles]					

Investigating reports of occurrence of fraud, theft and other malpractices					
Auditing and reporting of the financial statements of the various branches of the bank					
Assessing the adequacy of the internal control of the bank					
Making recommendation for improvement of the internal control of the bank					

SECTION C: OBJECTIVITY OF THE INTERNAL AUDIT REPORTS

5. Are internal auditing processes at Kumawuman Rural Bank Limited objective? a.

Yes []

b. No []

6. The table below presents statements about objectivity of the audit functions at Kumawuman Rural Bank Limited and how that has affected financial performance.

Please indicate your level of agreement on the statements below. Use the following scale:

1 - Strongly Disagree 2 - Disagree 3 - Undecided 4 – Agree 5 - Strongly agree

Statement	1	2	3	4	5
The comments and views expressed in internal audits are biased					
Internal auditing activities at Kumawuman Rural Bank Limited are based on hearsay, subjective judgment or witch-hunting					
Internal audit reports raise disputes and discontent among the bank staff					
The activities of the internal audit department are based on facts and can be authenticated					
The staff unanimously accept internal audit reports and take positive steps towards acting on the reports					
Internal auditing at Kumawuman Rural Bank Limited provides reports with verifiable and supporting documents					

SECTION D: INTERNAL AUDIT REPORTING CHANNELS

7. Who does the internal audit department report to?

- a. Board of Directors / Managing Director []
- b. Top Management []
- c. Middle management []
- d. Lower management []

8. The table below presents statements about internal auditing channels at Kumawuman Rural Bank Limited and how that has affected financial performance. Please indicate your level of agreement on the statements below. Use the following scale: 1 - Strongly Disagree 2 - Disagree 3 - Undecided 4 – Agree 5 - Strongly agree

Statement	1	2	3	4	5
There are clear channels of reporting for internal audit that are simple and straightforward					
Internal audit reports are provided to the highest office of the bank					
The internal audit department at Kumawuman Rural Bank Limited reports findings openly without any fear					
The internal audit department shows independence in their reporting					

SECTION E: INTERNAL AUDIT REPORT TIMELINESS

9. Are internal audit reports of the bank presented on time?

- a. Yes []
- b. No []

10. The table below presents statements about internal audit timeliness at Kumawuman Rural Bank Limited and how that has affected financial performance. Please indicate your level of agreement on the statements below. Use the following scale:

1 - Strongly Disagree 2 - Disagree 3 - Undecided 4 – Agree 5 - Strongly agree

Statement	1	2	3	4	5
Internal audit reports are released promptly and immediately after the audit is concluded					
Internal audit reports are timely which enables management to prevent risks and losses					
Internal audit reports are timely compiled and circulated to all relevant authorities after completion of the audit					
If there is any expected delay in internal audit reporting, this is communicated to the relevant authorities and the effect of this delay assessed					

SECTION F: INTERNAL AUDIT REPORT COMPLETENESS

11. Are internal audit reports at Kumawuman Rural Bank Limited usually complete? a. Yes [] b. No []

12. The table below presents statements about completeness of internal audit reports at Kumawuman Rural Bank Limited and how that has affected financial performance. Please indicate your level of agreement on the statements below. Use the following scale: 1 - Strongly Disagree 2 - Disagree 3 - Undecided 4 – Agree 5 - Strongly agree

Statement	1	2	3	4	5
Internal audit department has enough information to enable management make informed decisions on internal control					
The internal audit reports of the bank are comprehensive					
Internal audit department provides comprehensive reports and assurances to the management of the bank					
Internal audit reports reasonably cover all areas of operations and are reasonably complete					
Internal audit department has an analysis of the control weaknesses that are significant					
Internal audit department provides an assessment of the entire effectiveness of risk, governance and controls that the organization has put in place					

SECTION G: CHALLENGES OF THE INTERNAL AUDIT DEPARTMENT

How will you rank the following challenges as you see confront the internal audit department in the performance of their mandate?

Use the scale of 1 – 5 where 1 = not a challenge at all and 5 = a serious challenge.

Challenges	1	2	3	4	5
Inadequate logistics					
Low level of competence/professionalism					
Interference from top management					
Work overload due to a lot of branches to audit					
Inadequate fund allocation					
Data/information incompleteness, unavailability or inaccessibility					
Other1					
Other2					

Thank You for Your Time

APPENDIX II

KWAME NKRUMAH UNIVERSITY OF SCIENCE AND TECHNOLOGY,

KUMASI

SCHOOL OF BUSINESS

DEPARTMENT OF ACCOUNTING AND FINANCE

“The Assessment of Internal Audit Unit of Kumawuman Rural Bank Limited”

Interview Guide

1. How do the activities of internal auditors differ from external auditors of the rural bank?
.....
2. How is the internal audit department staffed?
.....
.....
3. To whom does the head of internal audit report?
.....
.....
4. How is internal audit work actually performed

- i. Timing..... ii.
 - Scope..... iii.
 - Purpose.....
 - iv. Planning.....
 - v. Execution of actual internal audit work
.....
 - vi. Develop a report
.....
5. How long does it normally take to finish an internal audit assignment?
.....
6. What are the types of internal auditing assignment at the bank?
.....
.....
7. What are your views on the internal audit reports of Kumawuman Rural Bank Limited?
- i. Timeliness..... ii.
 - Completeness..... iii.
 - Objectivity.....
 - iv. Reporting Channels.....
8. What challenges do you encounter in conducting internal audits within the bank
- I. Budget.....
 - II. Data/Information.....
 - III. Stakeholders Co-operation.....
 - IV. Personal Security of Audit Staff.....
9. Any other(s).....
10. How exactly does internal auditing help the bank to make savings?
.....
11. How exactly does internal auditing help the bank to increase profitability?
.....
.....
.....
12. Any further comment(s)
.....
.....

Thank you

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