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KNUST  
KUMASI - GHANA

ASSESSING AUDIT PRACTICES AT KWABRE EAST MUNICIPAL ASSEMBLY

BY

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A thesis submitted to the Department of Accounting and Finance, in partial fulfilment of the  
requirement for the degree of

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## DECLARATION

I hereby declare that this submission is my own work towards the Master of Science in Accounting and Finance degree and that to the best of my knowledge, it contains no material previously published by any other person or material which have been accepted for the award of any degree of any other University apart from where due acknowledgement has been made in the work.

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## DEDICATION

I dedicate this thesis to my parents (Kwaku Atta-Kruffi and Theresa Mensah) who have been very supportive financially throughout my education up to this level.

# KNUST



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I am extremely grateful to the Almighty God for his strength, wisdom and courage for undertaking this work. My unqualified appreciation goes to my supervisor, Professor Joseph Magnus Frimpong, department of Accounting and Finance, Kwame Nkrumah University of Science and Technology for his guidance and useful suggestions coupled with his meticulous screening of every chapter of this work that made this study a reality. I am really grateful to him.

I am also grateful to all my respondents at Kwabre East Municipal Assembly and District Audit Office at Agona who took time off their busy schedules to respond to my entire questionnaires sent to them. I say God bless you all.



## ABSTRACT

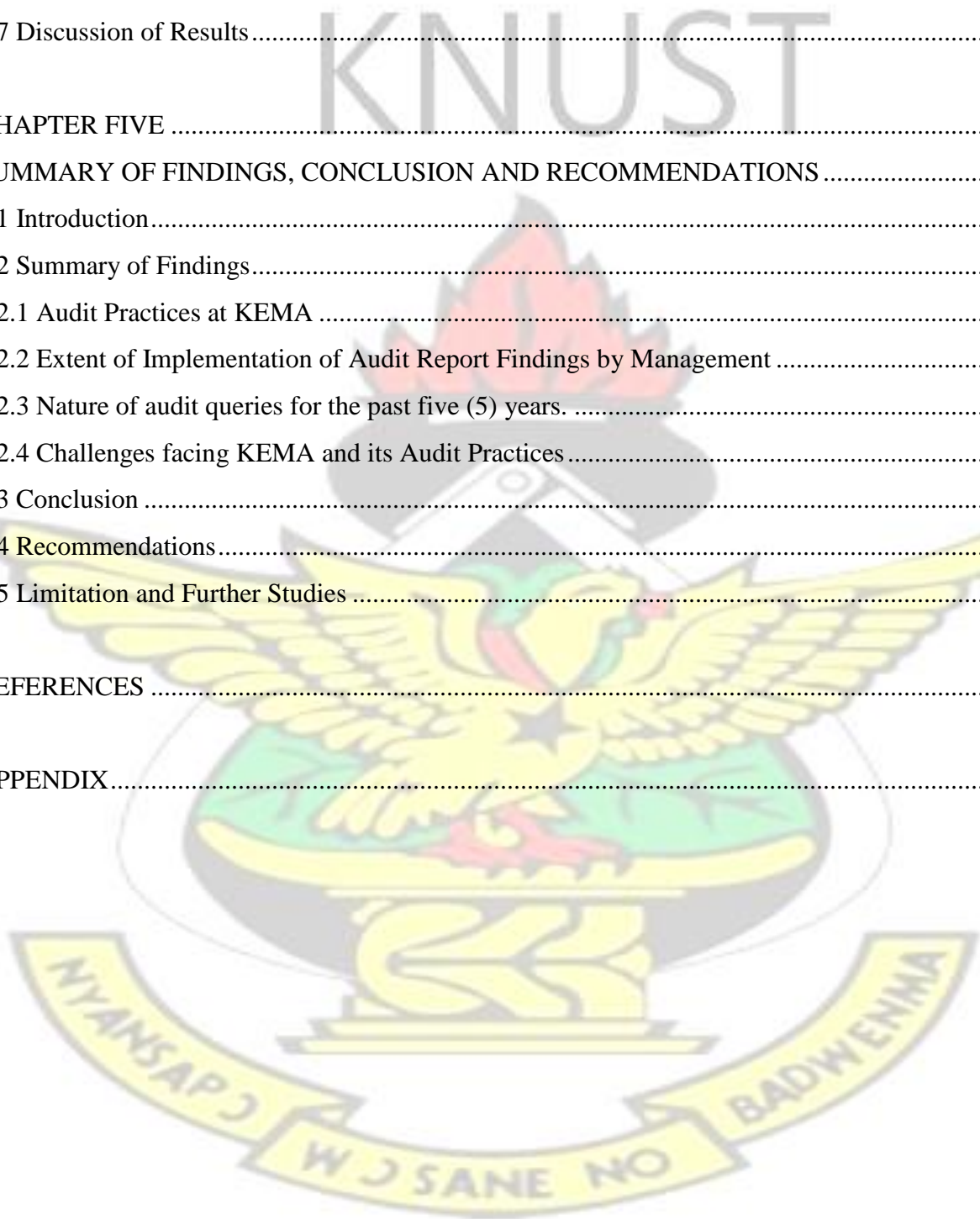
This study sought to examine the audit practices at Kwabre East Municipal Assembly in Ghana. Specifically, areas to examine include the extent of implementation of audit report recommendations, nature of audit queries from 2015 - 2019, and challenges faced by the Assembly (KEMA) and its audit practices. The study adopted mixed method descriptive research design. Qualitative and quantitative research data were gathered using questionnaires and interviews. A single case study approach was used by applying purposive sampling technique in selecting nine (9) respondents. Data analysis tools like excel and SPPSS data analysis were used for the questionnaires' analysis. The study found that lack of auditors' rotation among internal and external auditors within the five (5) year period which had resulted in familiarity of auditors with management, insufficient time devoted by audit committee members towards their affairs and couples of challenges needed to be considered in improving audit practices at the Assembly (KEMA). Therefore, the study suggested that auditors (internal and external) should be rotated randomly by the Human Resource Department at least within every five (5) years to minimize the extent of familiarity threats faced by auditors during the conduct of their audit. Other recommendations were made by the researcher to help address all the other challenges.

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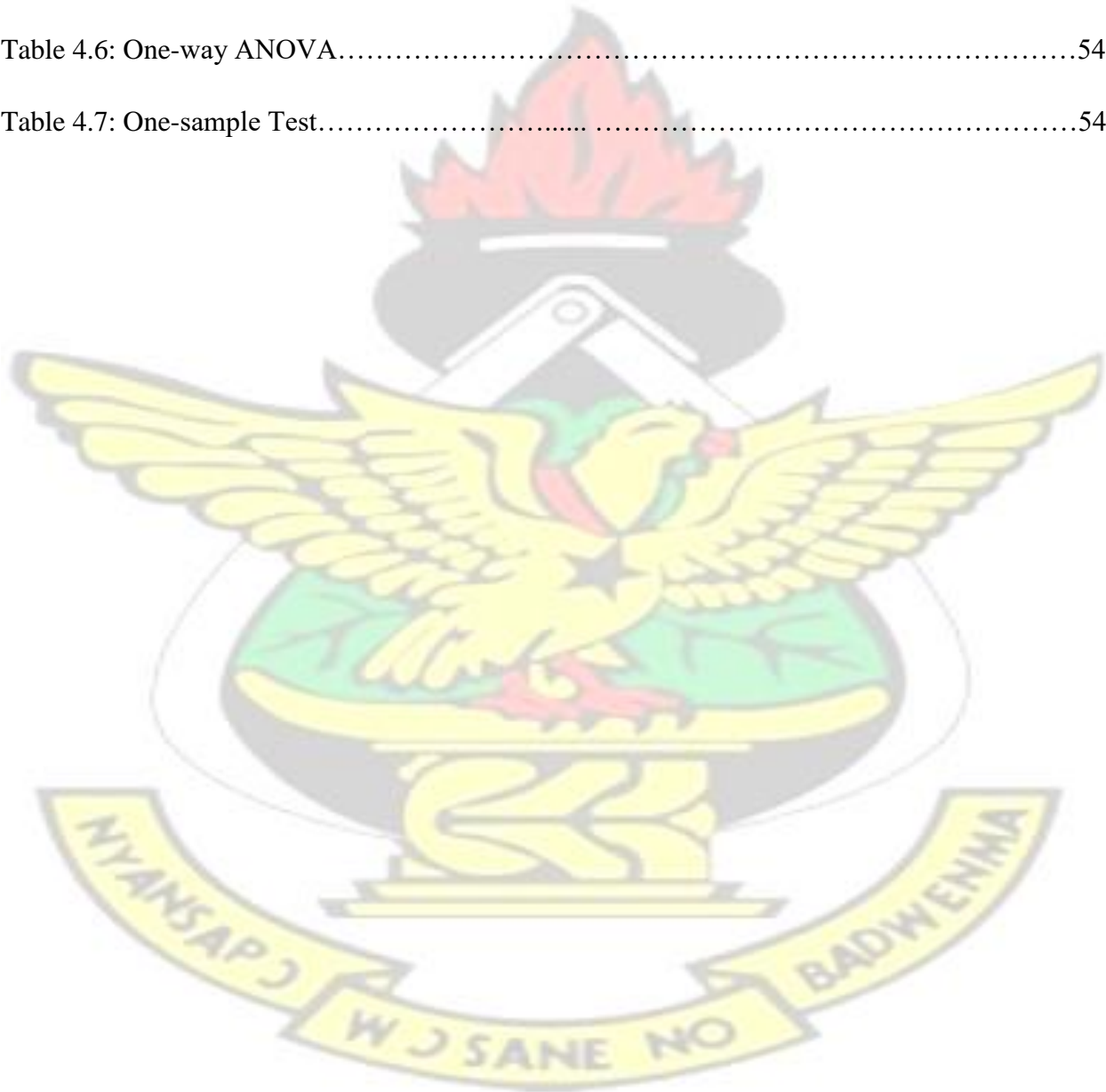
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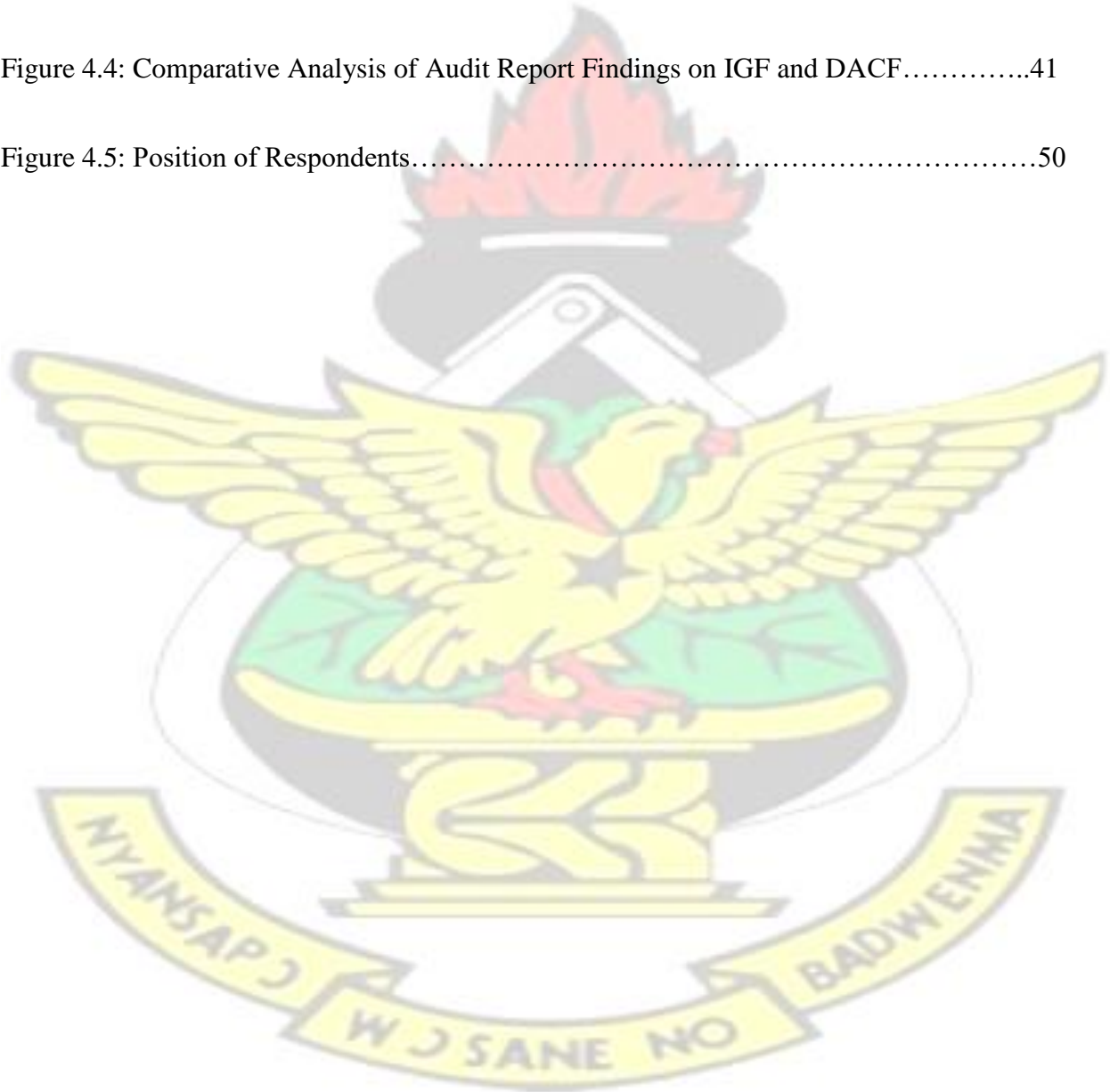
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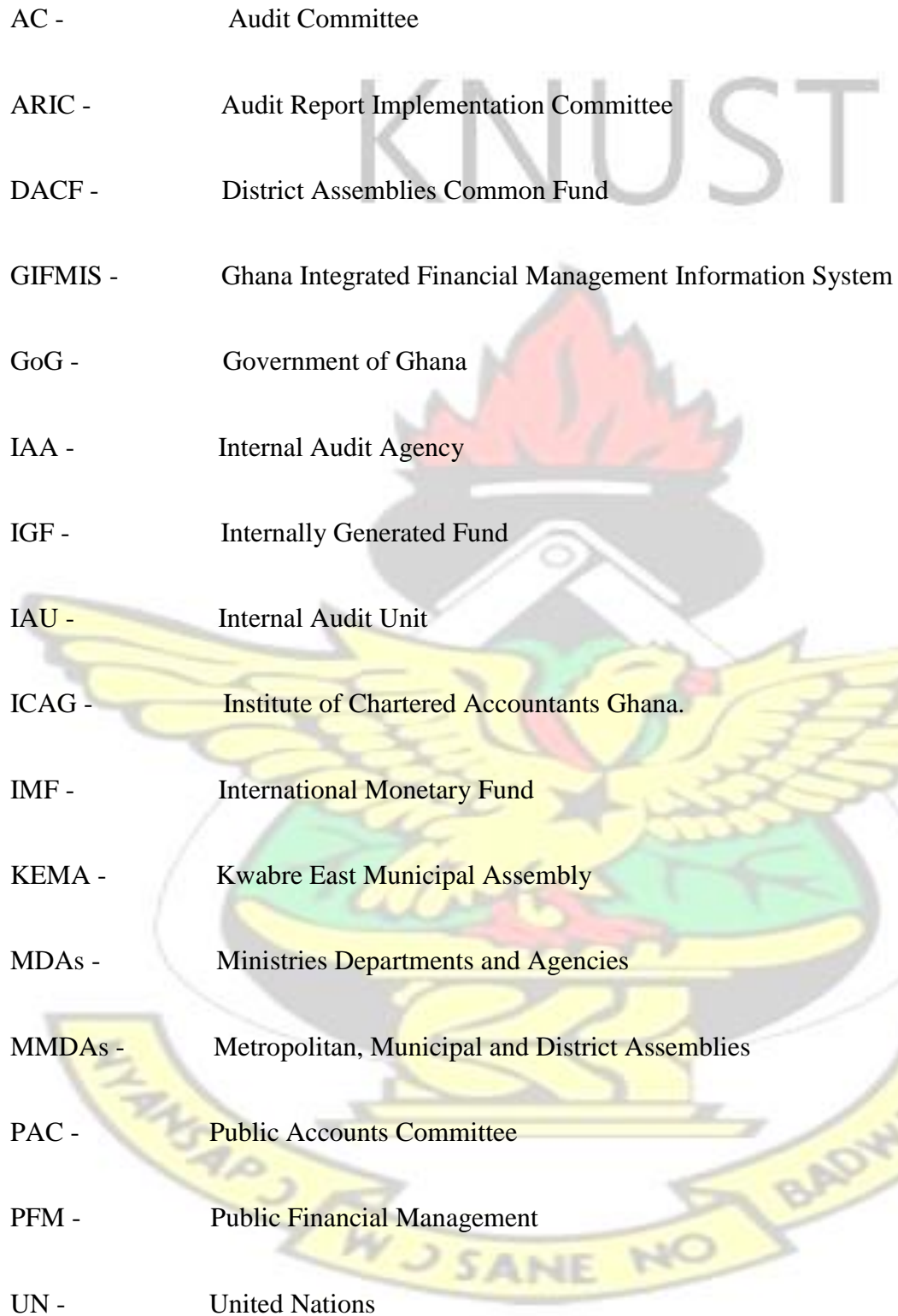


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## LIST OF ABBREVIATIONS



AC -	Audit Committee
ARIC -	Audit Report Implementation Committee
DACF -	District Assemblies Common Fund
GIFMIS -	Ghana Integrated Financial Management Information System
GoG -	Government of Ghana
IAA -	Internal Audit Agency
IGF -	Internally Generated Fund
IAU -	Internal Audit Unit
ICAG -	Institute of Chartered Accountants Ghana.
IMF -	International Monetary Fund
KEMA -	Kwabre East Municipal Assembly
MDAs -	Ministries Departments and Agencies
MMDAs -	Metropolitan, Municipal and District Assemblies
PAC -	Public Accounts Committee
PFM -	Public Financial Management
UN -	United Nations

## CHAPTER ONE

### INTRODUCTION

#### 1.1 Background Information

Since the implementation of decentralization, the 1992 constitution provided that MMDAs should have adequate and reliable source of revenue to undertake their programmes or activities with government grants, IGF (such as taxes, rates, levies, fees and incomes) and DACF all of these being listed with emphasis in the Sixth Schedule of Local government Act 1993 (Act 462). All of these funds need to be well managed by the MMDAs thereby requiring effective audit practices in order to safeguard them.

In order for the Government of Ghana to finance all of its activities like other governments in the advanced world, it employs numerous master plan of amassing funds such as rates, duties, taxes, grants and loans to finance the MDAs and the MMDAs and additional aspects of the public sector.

Public Financial Management (PFM) systems regulate all its aspect of the public sector resource mobilization and expenditure management within the macroeconomic and fiscal framework. Without PFM systems countries would have risked underdevelopment through loss of public funds as a result of misappropriation and misapplication. In the public sector of Ghana, it is mandatory for each covered entity (MMDAs) to establish an audit committee to replace the previously existing Audit Report Implementation Committee (ARIC). This is basically to make sure the main values for good corporate governance in an organization (i.e. transparency, accountability and probity) is fulfilled.

In spite of the annual services undertaken, a lot of perceptions within the sector are seriously undermined. The discrepancies among stakeholders' comprehension of audit practices suggested to them by international auditing standards and the statutory requirements have resulted in financial irregularities.

## **1.2 Problem Statement**

Studies on audit practices within developed markets have been extensively discussed (Vinnari and Skaerbek, 2014; Dahl, 2013; Kaawaase et al, 2020; Soliman and Elsalam, 2012; Fadzil et al, 2005; Vasarhelyi and Romero, 2014; Martinov-Bennie et al, 2015; Donelson et al, 2020). In general, most of the literatures have focused on internal audit examination with respect to either corporate governance and all determinants or development of internal audit effectiveness.

Unlike studies in developed markets, research into audit practices is few (Onumah and Krah, 2012; Asiedu et al., 2017) and there has not been exclusive audit practices at Kwabre East Municipal Assembly. Onumah and Krah (2012) focused on audit function practices of public sector whereas Asiedu et al (2017) focused on the relationship between corruption and audit function. There is a contextual gap in the examination of audit practices at Kwabre East Municipal Assembly. This research contributes to literature by filling this gap through the examination of the extent of audit practices implemented by the assembly as well as examine the challenges facing the assembly in its audit practices. This research intends to assess the audit practices of Kwabre-East Municipal Assembly.

### **1.3 General Research Objectives**

Assessing the audit practices at Kwabre East Municipal Assembly is the objective of this study in generality.

#### **1.3.1 Specific objectives**

Specifically, the study seeks to;

1. To examine the extent of implementation of audit report recommendations at Kwabre East Municipal Assembly.
2. To examine the challenges facing Kwabre East Municipal Assembly and its audit practices.

#### **1.4 Research Questions**

1. What are the extents of implementation of audit report recommendations at Kwabre East Municipal Assembly?
2. What are the challenges facing Kwabre East Municipal Assembly and its audit practices?

#### **1.5 Significance of the study.**

Findings of this study would enable management of Kwabre East Municipal Assembly to come out with pragmatic policies targeted at enhancing the effectiveness of audit practices. These findings are expected to remind the government of the implications of effective audit practices on the operations of its policies.

However, the study does not only unveil the importance of having good, effective and efficient audit practices on the part of the assembly (KEMA) but also examine the implication of a sound financial management by MMDAs and the growth and development of societies and Ghana as a

whole. The findings of this study will make several significances for various players of the local government authorities. The study aims at establishing how effective practices and accompanying decisions can add value to the MMDAs' competitiveness.

### **1.6 Scope of the study**

This study is thoroughly on MMDAs in Ghana. Specifically, the work was carried out at Kwabre East Municipal Assembly in Ashanti region due to access to data and availability of needs. In addition, the study would not neglect the discussion of audit committee and its further recommendations, as well as internal and external auditors' quarterly and annual reports to the assembly (KEMA).

### **1.7 Limitations of the study**

Due to the covid-19 pandemic which was at its peak globally during the time of the study, some of the respondents hesitated to avail themselves for a one – on - one interview which denied the researcher of some information which could have been of relevance to the study.

### **1.8 Organization of the study**

The study will be structured into five chapters including chapter one which will cover the background, problem statement, research objectives and questions, significance and organization of the study. Chapter two will provide the extant literature on the key concepts and issues on

audit practices. Chapter three will describe in detail the data and methodology that will be adopted for the study. In particular, the statistical techniques used will be addressed in the relevant sub-sections of this chapter. Chapter four of the study will report on the empirical results as well as the descriptive statistics of the study. Chapter five will present the summary of the findings, conclusions and possible policy recommendations for the study.



## CHAPTER TWO

### LITERATURE REVIEW

#### 2.1 Introduction

This chapter emphasizes on the study's conceptual review, theoretical review and empirical review. The conceptual review encompasses definitions and concepts whilst the theoretical review deals with the various theories supporting the study. Specifically, areas such as decentralization, public sector financial management, public sector auditing, public accountability as well as audit committees of MMDAs in Ghana will be tackled.

#### 2.2 Conceptual Review

This section highlights on definition of some concepts that underpin the research study. The four main areas are public sector financial management, public sector auditing, and public accountability of MMDAs in Ghana.

##### 2.2.1 Public Sector Financial Management

Public Financial Management is generally observed as the complex exercise (or activities) identified with the preparation and execution of budget, control, bookkeeping. The PFM systems have received widespread acceptance and it has currently been adopted by governments in many developing worlds with view of combating corruption and also to promote efficiency in the public sector financial management.

Transparency and accountability sought to be the central point of the work performed by internal and external auditors; giving emphasis to the role they play to help achieve good governance. Through their activities, the principal duty of ensuring accountability and transparency can

positively reflect on other areas of the framework of good corporate governance including performance, equity and rule of law.

Internal Auditors in the MMDAs play crucial role to help in the design of appropriate internal controls for implementation for achieving operational efficiency and value for money in terms of economy, effectiveness and efficiency. As part of their functions they help management in managing risk exposed by these government units. It is imperative to note that internal auditors are charged the responsibility of monitoring the internal controls designed by the MMDAs in Ghana they serve in order to enhance judicious utilization of resources or funds. The role in providing assurance in terms of giving advice on the best design of systems, monitoring of their implementation or progress and continual improvement of the internal control process were solidified.

#### **2.2.1.1 Public Sector Auditing**

The fundamental principles of public sector auditing are set out in ISSAI 100. However, the fundamental principles of auditing in the public sector are not different from auditing and assurance in the private sector. According to ISSAI 100 the objectives or purpose of public sector auditing is to provide legislative and oversight bodies, those charged with governance and the general public with information, independent and objective assessment concerning stewardship and performance of government policies, programmes or operations. Most public sector audit is one or more of these three (3) types; financial statements (financial audit), performance audit, and compliance audit. The basic elements of public sector audit include; the three parties to the audit, criteria for assessing for assessing the subject matter and the resulting subject matter information.

‘The overall audit process involves a systematic process of objectively obtaining and evaluating evidence regarding assertions about economic actions and events to ascertain the degree of correspondence between those assertions and established criteria and communicating the results to interested users’(Uzaimi, Febriand Abdel and Armaidah, 2015).

### **2.2.1.2 Importance of Public Sector Auditing**

Audit assists in making the executive answerable to parliament and the general public. The legislature can exert control over the executives and substantiate that the public resources have been used responsibly for the purpose pre-arranged and funds raised through various sources like taxes reach government fully. Since public sector financial reports involve channel of information on government’s activities, the public demands audit reports so as to assess the performance of people entrusted with public funds. This has made auditing in the public sector an essential portion of good public sector management and accountability to stakeholders. It is beneficial to therefore assess from time to time whether the audit function is providing value to stakeholders. Even though auditing and assurance are essential purposes their interests could be unintended making the studying of its value an arduous task.

Specifically, in the public sector, it could be complex with regards to the interests of auditing and assurance in accruing to users of audited financial statements and information providers for such statements benefits from increased credibility. Public sector auditing in this sense explains the information to make various economic decisions by users should be trusted.

### **2.2.2 Concept of Public Accountability**

It involves the obligation to provide information about performance; to explain decision-making; and to justify conduct. It implies possibility of debate, of public questions and governmental answers and eventually of judgment by citizens. However, in Ghana the audit of the public sector is conducted with the prime motive to ensure that resources allocated to public officers are used in the right manner. That is to say public accountability and auditing are two terms used in tandem with each other.

### **2.2.3 Audit Committee and the Statutory Audit Process.**

Audit committee over recent years has been observed as an essential tool in developing the legal audit practice. Audit committee and its contribution to audit quality has triggered a lot of research from areas such as; comprehending how audit quality is perceived by audit committee; glancing through audit committee's attitude in the event of auditor-manager conflict; the interplay between audit committees and behaviour of external auditors towards discharging its audit functions without lack of objectivity.

Earlier studies had analyzed the presumed prime concern of members of audit committee in oversight duties and traverse how audit committee helps to making meaning to the complicated nature of related factors on quality of audits in both private and public institutions over the globe. Research that considers the notion of audit committees on audit quality has found that these members identify audit quality, as measured by the auditor's capacity not to undisclosed material uncertainty, upgrading in the earliest few years of an auditor engagement but also identify a drop in quality as auditor rotation prolongs. This proposes that audit committee should center on the

period the auditor has been in place for practice, focusing critical attention to those auditors in place for specific term (Schroeder 1986).

In public sector of Ghana, section 86 (1) of the Public Financial Management Act 2016 (Act 921) makes it mandatory for each covered entity to establish an audit committee. The audit committee of Kwabre East Municipal Assembly is constituted in line with section 87 of Public Financial Management Act 2016 (Act 921) with membership drawn from the board, Internal Audit Agency and Institute of Chartered Accountants, Ghana. The committee was however, inaugurated on 5<sup>th</sup> December 2017 by the Director-General of Internal Audit Agency (IAA), who administered the oaths of office and secrecy in the presence of the Municipal Chief Executive.

Moreover, since connection develop fully, self-approbation and overdependence can end up in less conscientious audits. Schroeder (1986) observed that chairpersons of audit committee perceive audit quality from quite moderately dissimilar point of view from other audit committee elements such as partners' level of concentration channeled towards the engagement team's work as against reputation or the audit fee charged. A different scope that requires attentiveness is audit committee's behaviour in instances where management has been in disagreement with external auditors on audit issues. Specifically, regular intense dissimilarities occur among the audit committee chairs, management and external auditors on matters like financial disclosure as well as voluntary financial reporting issues. The assistance rendered by audit committee to auditors on deliberations that include earnings trend and exact measurement on accounting information is observed to be more enhanced from members qualified as Certified Public Accountants (CPA's) and with greater relevant work experience (Dezoort et al., 2003). In addition, audit committee members who have advanced experience and knowledge as self-reliant

directors of organizations as well as understanding in auditing are profitable to back external auditors in an auditor management disagreement.

In furtherance to the impression of audit committee on standard audit and its role in auditor management dispute, an important streamlet of literature center towards the committee's contribution to the preference of external auditor, evaluation, appointment and dismissal are some of the primary responsibilities of audit committee (Mautzand Neumann, 1970; Braiotta, 1994; BRC, 1999; Smith, 2003)". Additionally, an area of attention together with previous studies highlighted suggested possibility for audit committees in considering bigger auditors as they may be discerned in providing improved quality audit. Most current study on audit committees and auditor preference has sought to center on two relevant areas; the preference of auditor (i.e. the big four (4) versus non-big four); and auditor rotation (Bradbury 1990).

In specifics, reference to former Arthur Andersen clients, (Chen and Zhou (2007) found those firms with larger, more autonomous audit committees with financial expertise were more likely to choose big four auditors. However, Chen et al., (2005) regardless of being in consonance with the impact of self-reliance in considering specialized auditors, identified that the number of sessions and financial expertise had no effect on the alternative of a specialist auditor. Country of choice and sampled year for analysis has made dissimilarity in final delivery most possible.

Mentioning of suspicious auditor rotation (changing auditors after experiencing an impure audit opinion or after disclosure of a reportable event), "Archambeault and Dezoort (2001) suggest that those with less desirable audit committee characteristics, such as committees with fewer members without independence, less expertise and holding inadequate meetings were more likely to switch auditors".

Different subject matters came out from the literature around the scope of auditor affirmation and audit adjustments as variable discoveries have been identified from research in respect of auditor affirmation. For example, Raghunandan and Rama (2001) found that audit committee independence is a key characteristic which helps auditor ratification. This has however been countered by Kishnan and Ye (2005) who found audit committee's independence and diligence of no relevance. As an alternative, connection between audit charges was identified, audit committee financial expertise and auditor ratification; with higher audit charges and higher understanding regarded as same to a higher likelihood of searching for stakeholder affirmation were achieved.

The financial statements adjustment issue is usually at the focal point of management-auditor disagreements (Knapp, 1987). It has also been recommended that although fraud and error related to financial statements are possibly to be found in interim reporting their identification that adjustments have a higher likelihood to be advocated for year-end reports cannot be neglected (Beasley et al., 2000).

#### **2.2.4 Internal Controls of MMDAs in Ghana**

Internal controls are the organizational mechanisms put in place to protect the resources, safeguard the accuracy and dependability of reported data, promotion of operational efficiency and attaining institutional goals and objectives. Organizations are established to enhance social order and achievement of various types of activities as constantly observed under organizational theory (Scott, 2003). Preservation of recognized resources as the growth and execution of schemes is an effort to ensure that assets are safeguarded and monies from falsification and fraud, to discover racket and reduce losses from neglect/abuse. Organizations benefits the society

because they have 3 unique features; durability, reliability and accountability. Each of these features is enhanced through the adoption of effective system of governance with strong internal controls. Salient sub-elements such as the entity's system of internal control form part of the definition of governance (Rezaee, 2007). These controls are the safeguards designed and used to operate at the transaction level (record of event) in order to protect the resources of the entity from practices such as waste, abuse and fraud.

### **2.2.5 Audit Committee and Internal Audit Function**

Powell (1993) argued that internal audit functions are the most preferable tools to give account on effectiveness of internal control system. An effective audit committee with elevated management integrity can contribute towards the internal auditors' performance on ethical duty when they are in a dilemma (O' Leary and Stewart, 2007). The increasing areas and duties of audit committee members in the oversight of circulation of financial information make the assessment of audit committee members' perception of their assigned oversight responsibilities even more important. "Audit committees presume internal control evaluations as one of their most important obligations in the oversight process (Dezoort, 1997; Cohen et al., 2004)".

Institute of Internal Auditors are of the view that reporting segments being the main source of internal audit autonomy vitalize good corporate governance in the public service. They therefore urge heads of audit units to account straight to audit committees. Moreover, adoption of internal audit in training prospective managers was established to be widespread, thus causing a threat to the objectivity of internal auditors within public service. It has also been stated that influence of audit committees in substituting the chief internal auditor also mitigates the influence of management and therefore gives more power to the internal auditor in discharge of functions.

### **2.2.6 Effectiveness of Internal Auditing**

Sterch and Bouckaert (2006) mentioned that the implementation of internal audit function in the public sector is effective on conditions of legal requirement for establishment of internal audit function, presence of audit committee and help obtained from top management and central unit for the advancement of internal audit function. Areas of support could be from human resources capacity building, information technology capacity building, training and other means of support. For effectiveness, the Internal Audit Agency needs to set standards and procedures for the conduct of internal auditing in MMDAs in Ghana. In line with this, audit committee established under the remit of the Auditor General needs to be functional by ensuring that the recommendations by parliament and the Auditor General are implemented as well as reviewing and advising the internal auditors on the strategic and annual audit plans and monitoring for their performance. Once there is successful implementation of internal audit function, the next serious challenge is developing it to be effective. Hung and Han (1998) conducted an investigation into factors that influence effectiveness of internal audit function.

### **2.2.7 Benefits of Internal Auditing**

It is worth noting that the benefits of internal audit cannot be overemphasized. The Institute of Internal Auditors (IIA) stated that internal audit happens to be an important function that supports and promotes institutional governance (Ramamoorti, 2003). Holt and Deezoort (2009) indicate that internal audits' role in corporate governance is to monitor risk and seeing to it that there is financial reporting reliability. Internal audit provides and supports for the monitoring and the oversight function filled by management, the board and external auditors by providing

independent and objective verification or examination over operational and strategic perspective of corporate governance like the system of internal controls (Anechiarico, 2010; Asare. 2009; Montondon, 1995; Rezaee 2007).

Internal audit as defined by the Institute of Internal Auditors “is an independent, objective assurance and consulting recreation designed to add fee and enhance on organization’s operations. It assists an organization to achieve its objectives with the resource of bringing systematic, disciplined method to think about and improve the effectiveness of chances in management, control and governance processes” (Ramamoorti, 2003, P.12).

## **2.3 Theoretical Review**

This section presents the theories that are anchored on the research topic and these are institutional theory and agency theory.

### **2.3.1 Institutional theory**

Institutional theory has been widely used in studies related to audit practices (Meyers and Rowan, 1977; Arena and Azzone, 2007; Algabry et al, 2021). Dacin (1997) defines institutionalization as “a process that firms go through to comply with socially expected outcomes and this happens by following the laws and regulations in all activities”. Recently, studies have focused on the means by which institutional perceptions vary and change with time as a result of forces within the organization (Lawrence et al, 2002). This change has better placed institutional theory in a better position to provide reliability on how audit practices and development through changes in the forces. The channel and speediness of disseminating audit practices relies heavily on the density of communication and relationship among various

individuals within the departments. Zukin and Dimaggio (1990) assert that the network is “a mixture of ideologies, script, norms and assumptions that are shared in the firm among the individual actors which, consequently, form the goals and strategies to determine whether such practices should be accepted or not”. Managerial support and the right position place a key role in ensuring the effectiveness of such practices, for instance, in the case of internal audits, Arena and Azzone (2007) found that hierarchical position of internal audit provides assurance on the independence via the effective line of reporting.

Algabry et al, (2021) add that the imposition of right form of pressure leads to the ideal structure of audit practices

### **2.3.2 Agency Theory**

Agency theory is premised on a bilateral relationship between two parties, one being the principal and the other agent (Jensen and Meckling, 1976; Ross, 1973). Ideally, this theory is suited for a single principal and single agent. However, Tirole (1986) proposed a two-staged model of this theory which extends to more than one single principal and single agent. This scenario presents two principals against one agent who strives to meet both needs of these principals. Arguably, there are inherent conflicts evident in the bilateral relationship (one principal and one agent), the presence of two principals just worsen matters since these two principals having conflicting objectives as well as diverse demand for information. This is well known in literature as “serving two matters” which is not something rare in business literature (Eulerich et al, 2019). Almer et al (2018) cites an example of external auditors serving multiple stakeholders such as management, audit committee investors among others.

The theoretical lens of agency theory can be used to explain how difficult internal auditing can satisfy the needs of the two key stakeholders. Internal audit is demanded for assurance-based

services as well as consulting-based services for both management and audit committee, however, there may be certain instances both principals may request for assurance-based services and/or demand different or same information with specifications. Hoos et al (2014) state that “executive management prefer more consulting-based services and less assurance-based services whereas audit committee generally prefer more assurance-based services and less consulting-based services”. Stewart and Subramaniam (2010) adds that auditing’s purpose is to meet both needs even though they are conflicting and demanded from limited resources. This challenge has been addressed by the head of the Institute of Internal audit who clearly said that “We can audit anything-but not everything”.

#### **2.4 Empirical Review**

This section delves into prior researches conducted by other researchers and scholars with respect to internal audit and other related topics mostly on a specific geographical location.

Donelson et al (2020) investigated the reviving of large consulting practices at the Big 4 audit quality using 17 U.S based audit partners from 2005-2015 through interviews. The findings indicate that the kind of consulting company acquisition is relevant. Also, the probability of misstatement is inversely related with the audit practice. Additionally, other acquisitions affect audit quality in a negative manner via the local culture.

Martinov-Bennie et al (2015) examined the role, characteristics, expectations and evaluation of practices of audit committees using semi-structured interview. The findings indicated that new regulation is key to alterations in roles of audit committees. Again, audit committees are actively engaged in firm governance as well as performance within vital areas such as risk management.

Vasarhelyi and Romero (2014) examined technological advancement in 4 audit engagement using interviews. The findings indicated that the attributes of the audit team rely heavily on the extent of technology use. Also, integrating technological supporting teams as well as auditors is likely to enhance usability and rises adoption of technology.

Fadzil et al (2005) investigated internal auditing practices and internal control systems of Malaysian companies using questionnaires. The findings indicate that management of internal audit department influence positively information communication whereas professional proficiency, objectivity and review affect negatively information communication. Also, performance of audit work impacts positively the control environment while professional proficiency and independence affect internal control system negatively. The management of internal audit department affects risk assessment negatively while audit program and audit reporting affects risk assessment positively.

Soliman and Elsalam (2012) examined corporate governance practices and audit quality of 50 listed Egyptian companies over a 4-year period from 2007 using a logistic regression technique. The findings indicated managerial ownership is positively related to audit quality whereas board independence, audit committee, board size and CEO duality impacts audit quality negatively. Also, the findings reveal that institutional ownership is insignificantly related to audit quality.

Kaawaase et al (2020) examined the “intellectual capital and performance of small and medium audit practices: the interactive effects of professionalism” using a questionnaire survey of 77 Ugandan small and medium enterprises. The findings indicated that intellectual capital, structural capital and sense of calling to the profession influence performance positively. Though, professionalism insignificantly influences performance, when interacted with intellectual capital increase the growth in performance.

Dahl (2013) investigated the relationship between bank audit practices and loan loss provisioning for 54,168 firm-year observations of multi-national banks. The findings indicated that there is convergence across audit categories. Also, there is standardization in the accounting for impaired loans.

Vinnari and Skaerbek (2014) examined the “uncertainties of risk management: a field study on risk management audit practices in a Finish Municipality” using public, confidential and semi-structured interview. The findings indicated risk management instead of having a reduction effect on uncertainties, became a producer of uncertainties such as legal uncertainties, operationalization uncertainties and professional uncertainties.

## CHAPTER THREE

### RESEARCH METHODOLOGY AND ORGANIZATIONAL PROFILE

#### 3.1 Introduction

This chapter of the work indicates the research fashion used with respect to the targets of the study by way of ensuring the application of appropriate methodology. Among the matters to be discussed in this chapter are the research design, population, sampling processes and sample size, data collection technique and research instrument, data analysis methods, reliability and validity of data, ethical considerations and the profile of the assembly (KEMA).

#### 3.2 Research design

These are quantitative, qualitative or mixed approaches which according to Ghauri et al (1995) maintain that quantitative and qualitative methods are two types of research methods mostly adopted by researchers.

#### 3.3 Population

The study's population consists of all MMDAs in Ghana. However, for the purpose of the study, the target area of selection is Kwabre East Municipal Assembly in Ashanti Region of Ghana. The study area is specifically chosen due to proximity and gathering data will be relatively easier and more organized in terms of collection and collation.

### **3.4 Sample Size and Sampling Techniques**

The study's sample will be taken from KEMA staff and External Auditors from District Audit Office-Agona. The purposive sampling technique was employed to select only respondents from specific department/unit (IAU, Finance) and district audit office-Agona. These respondents were chosen due to their in-depth knowledge and experience in audit practices. However, in order to give each staff within the departments/unit of KEMA and district audit office equal chances of being sampled for the study, random sampling technique was used. The study sampled nine (9) respondents comprising the Municipal Coordinating Director, two (2) respondents from the Internal Audit Unit (IAU), three (3) respondents from the finance department and three (3) respondents from the district audit office-Agona. The purposive sampling will be employed for this study.

### **3.5 Data Source and Collection Instrument**

The main data for the study is primary data gathered through distribution of questionnaires. Primary data are data from original source. They are first-hand information gathered through field surveys that may have not been tampered with. Usually, data are gathered with questionnaires, interviews or by observations. The other data set is a secondary data. This data is obtained from financial statements, quarterly internal audit report, annual external audit report, journals, textbooks, handbooks & manuals, search engines, literature review as well as published guides. A questionnaire made up of open and close-ended questions are used. This offered a lot of flexibility in question framing that allowed respondents to answer the questions conveniently.

The researcher having worked with the Local Government Service since December 2012 was reasonably well informed and knowledgeable of the activities of the assembly (KEMA).

### **3.6 Data Analysis and Methods**

The responses were obtained from the participants and were entered into the Statistical Package for Social Sciences (SPSS version 23) for the analysis. The data was then processed to obtain the measures of central tendencies such as the mean and other frequencies from which conclusions were made.

### **3.7 Validity and Reliability of Data**

Kombo and Tromp, (2009), defined reliability as the ‘degree of consistency that the Instrument or procedure demonstrates’. Validity refers to the congruent or “goodness of fit” between an operational definition and the theory it is supposed to measure. Validity is used to review and test the conformity of the various opinions whether the information received measured what they are planned to measure. This said, the researcher initially conducted a pilot test with ten respondents’ randomly selected internal audit and account staff at the Oforikrom Municipal Assembly. Subsequently, comments made were used to revise the final questionnaires before they were sent out to the participants.

### **3.8 Ethical Consideration**

In undertaking this study, the researcher adheres to the Code of Research Ethics by ensuring that respondents are aware of their participation in the exercise and the study will be undertaken with their consent. The research is purely meant for academic purpose and not to be used as a means to persecute any staff who might be either directly or indirectly connected to the study.

### **3.9 Profile of Kwabre East Municipal Assembly**

Kwabre East Municipal Assembly (KEMA) was upgraded from the former Kwabre East District Assembly (KEDA) on 21<sup>st</sup> December, 2017 by L.I 2265 and inaugurated on 15<sup>th</sup> March, 2018. The Municipality is located at almost the central portion of Ashanti Region within latitudes 6°45' and 6° 50' North and longitudes 1°30' and 1° 35' West with Mampong as its administrative capital. It shares same boundaries with Sekyere South District to the North; Old Tafo Municipality to the South; Asokore Mampong to the South East; Ejisu-Juabeng Municipality to the East and Afigya Kwabre District to the West. The Municipality's total land area is 148 square kilometers find inside the wet semi-equatorial climatic zone accompanied by double rainfall regimes. Estimated average annual temperature is 30°C with the least about 26°C. The major vegetation types are semi-deciduous forests and grasslands.

In reference to Ghana Statistical Service's 2010 Population and Housing Census, Kwabre East Municipal had a whole resident totaling 115,556 in the company of female a bit dominating at a 60,450 population representing 52.3% while male population was at 55,106 representing 47.7%.

## CHAPTER FOUR

### DATA PRESENTATION, ANALYSIS AND DISCUSSION OF FINDINGS

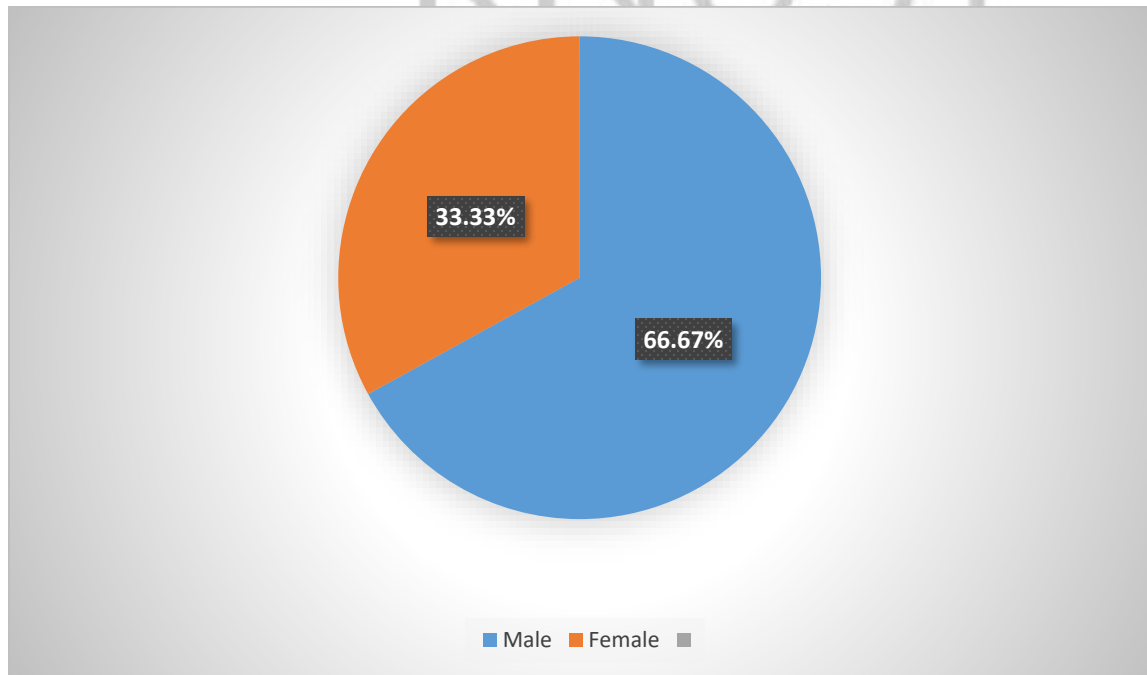
#### 4.1 Introduction

Previous chapters dealt with the various definitions, concepts, theories and tools employed in the study. This chapter deals with data presentation, analysis and interpretation of findings through extensive interview conducted at Kwabre East Municipal Assembly and the Sekyere South District Audit Office located at Agona which plays the role as external auditors of KEMA due to the absence of an office that represents Ghana Audit Service at the municipality (KEMA). Specifically, areas examined include the audit practices at KEMA, the extent of implementation of audit report recommendations, the nature of audit queries for the past five years and finally the challenges facing KEMA and its audit practices.

#### 4.2 Demographic Characteristics of Respondents.

The study seeks to distribute respondents by their demographic characteristics to ascertain their gender, age, highest level of education, department/units, and the number of years they have worked with their respective departments/units/office.

Figure 4.1 and table 4.1 below illustrate the summary of demographics.



**Figure 4.1: Gender of Respondents**

**Source: Field work, August 2020**

From figure 4.1 above, the number of male respondents outnumbers the female respondents. This represents 66.67% (6 males) and 33.33% (3 females) respectively.

The purposive sampling technique was used to select only respondents from specific department/unit (Internal Audit Unit, finance department, office of the coordinator and district audit office of Ghana Audit Service Agona). These respondents were chosen due to their in-

depth knowledge and experience in audit practices. However, in order to give each staff within the departments/unit of KEMA and district audit office at Agona equal chances of being sampled for the study, random sampling technique was used. The study sampled nine (9) respondents comprising the Municipal Coordinating Director, two (2) respondents from the Internal Audit Unit (IAU), three (3) respondents from the Finance Department and three (3) respondents from the District Audit Office, Agona.

Table 4.1 below covers the remaining demographics of the respondents.

VARIABLE		FREQUENCY	PERCENTAGE (%)
Age	≤ 25 years	0	0
	26 – 35 years	1	11.11
	36 – 45 years	4	44.44
	46 – 55 years	2	22.22
	≥ 55 years	2	22.22
<b>Total</b>	<b>9</b>	<b>9</b>	<b>100</b>

Highest Level of Education	Professional Certificate	3	33.33
	Master's degree	2	22.22
	Bachelor's degree	4	44.44
	Diploma	0	0
	SHS/Technical	0	0
<b>Total</b>	<b>9</b>	<b>9</b>	<b>100</b>
Position/Rank	Director	1	11.11
	Principal	3	33.33
	Senior Officer	4	44.44
	Assistant	1	11.11
<b>Total</b>	<b>9</b>	<b>9</b>	<b>100</b>
Department/Unit/Office	Internal Audit Unit	2	22.22
	Finance Department	3	33.33
	District Office Ghana	3	33.33
	Audit	1	11.11
	Administration		

<b>Total</b>	<b>9</b>	<b>9</b>	<b>100</b>
Years working with their respective department/unit/office	$\leq 5$ years 6 – 10years 11 – 20years $\geq 20$ years	0 3 4 2	0 33.33 44.44 22.22
<b>Total</b>	<b>9</b>	<b>9</b>	<b>100</b>

**Table 4.1: Age, level of Education, Position, Dept./Unit/Office, Years of work Experience**

**Source: Author's field work, August 2020**

Table 4.1 above presents age group, level of education, position/rank, department/unit/office and number of years the respondents have worked with their respective department/unit/office. It is clearly shown that the majority of respondents are between the ages of 36 to 45 representing 44.44% and the respondents were being asked about their highest level of education and all the respondents were formally educated. Those with professional certificate from ICAG were three (3) representing 33.33%; master's degree holders represented 22.22%; and bachelor's degree holders were four (4) representing 44.44%. To the researcher's expectation, all respondents had worked with their respective department/unit/office for more than five years. And the number of respondents who had worked more than ten (10) years recorded the highest number of four (4) representing 44.44%. This was followed by those between the years of 6-10 who recorded a total

number of three (3) representing 33.33%. Also the study finds that, there is only one respondent at the rank of directorship, three (3) respondents at the level of principal, four respondents at senior rank and one at assistant rank representing 11.11%, 33.33%, 44.44% and 11.11% respectively. Finally, the study finds that two (2) respondents were from IAU, three (3) from finance department, three (3) from district audit office, and one (1) from office of the coordinator representing 22.22%, 33.33%, 33.33% and 11.11% respectively.

### **4.3 Audit Practices at Kwabre East Municipal Assembly**

In Ghana the audit of the public sector is conducted on the basis of the Auditor-General's mandate as contained in the Audit Service Act 2000 (Act 584) sections 11 and 13. The audit is guided by circulars, policy documents, the assembly's procedures manual, and the following legislation; Financial Administration Regulation 2004 (L.I 1802), Public Financial Management Act 2003 (Act 654), Public Procurement Act (Amended) 2016 (Act 914), Local Government Act 2016 (Act 936), Income Tax Act, 2015 (Act 896), Audit Service Act, 2000 (Act 584).

All Spending Officers are required to follow the laid down rules and regulations set by the above legislations. Failures on the part of a Spending Officer to conform to the procedures set by the relevant legislation become a violation which has to be reported by auditors as findings.

#### **4.3.1 Criteria for Audit Report Findings**

The criteria for rigorous auditing are cited from any of the above regulations/legislations (stated in 4.3 above) which are standards that public officers are expected to follow to achieve Public Financial Management efficiency. Audit report findings identified by auditors (internal and

external) come with their respective recommendations which should be implemented in practice by the management of the assembly (KEMA). The criteria for the findings are briefly explained below.

In the first place, a debt schedule lays out all the debts of an institution or organization in a schedule, based on its maturity usually used by the organization to construct a cash flow analysis. Good management practices seek to the existence of a monthly indebtedness schedule. Audit manual for Metropolitan, Municipal and District Assemblies programme Number 12 on Cash Management emphasizes the presence of this schedule (Annex 15 A06-01).

Moreover, Regulation 22 (1) of the Financial Regulation 2004 (LI 1802) sets a twenty-four-hour ultimatum for the receipt and banking of Assembly revenue from all Revenue Collectors. The Financial Memoranda for MMDAs issued by the MLGRD under section 91 of the Local Government Act (462) of 1993 on Revenue Collection #29 states that where banking facilities exist revenue should be banked daily but otherwise weekly. Revenue Collectors shall present their cash books, receipts forms and pay-in-slips stamped by the Bank to the Finance officer for inspection.

In addition, good management practices demand comparison of figures from time to time, casted from all the various inflows to sum up for a grand total receipted for year to year. Comparison of figures will enable trends to be established for remedial actions to be implemented. It is also demands that all Payment Vouchers should be properly filled.

Furthermore, the existence of the zonal councils was established by the Local Government Legislative Instrument 1994 for the zonal councils specified in the second column of the First

Schedule to each of the legislative instrument in the third schedule. The operation of the town or zonal councils is to help enhance development and decentralization process.

Emphasis on section 20 of Local Government Act 1993 (Act 462) mandates all MMDAs to have an Internal Audit Unit whose functions shall include the vetting of Payment Vouchers before payments are made. Regulation 179 of Financial Administrative Regulation, 2004 (L.I 1802) prohibits a head of department from authorizing payment from funds earmarked for specific activities for purposes other than those activities.

Finally, section 43(1) of Public Procurement Act 2016 (Act 914) enjoins a procurement entity to request quotations from as many suppliers or contractors as practicable from at least three different competitive sources. Regulation 1513 of the stores regulation 1984 requires assets to be embossed with identification numbers.

#### **4.3.2 Summary of Audit Report Findings on IGF (2015-2019)**

Payment vouchers not being pre-audited with respect to IGF as an audit finding repeatedly occurred throughout the five-year period. Also, expenditure warrants not signed by the Municipal Budget Analyst, Coordinating Director or Chief Executive is also a major finding which repeatedly occurred throughout the five-year period as the first finding. Auditors recommended to management with regards to the above two (2) listed findings to ensure that payment vouchers are pre-audited and warrants signed respectively.

Amongst all the relevant findings, the under-listed occurred four (4) times within the five- year period. These are; payment vouchers without public expenditure warrant; payment vouchers

without works order and certificate of completion; and variance in the total grand sum of the receipted IGF compared to the projected revenue figures as at the date of audit.

Auditors recommended to management to ensure the introduction of works order and certificate of completion as well as making a refund of all payments done without public expenditure warrant with regards to findings 1&2. With respect to finding number 3 on variance in total grand sum receipted compared to its projected figures, the comparison resulted in a percentage increase of 34.09%, 15.49%, 27.35%, and 17.7% for the years 2015, 2016, 2017 and 2018 respectively. However, individual revenue targets were on the high side and were suggested to management to set a realistic target calculation method for each collector to be achievable each year.

Moreover, audit reports for three separate years within the five-year period reported on delay in the submission of revenue contractors' mobilization. This was the only audit finding that repeated itself for only three times within the period. Auditors recommended to the Assembly to send messages to all revenue contractors to bank their collections within 24 hours and collect the pay-in slips from the bank to be attached to their General Counterfoil Receipts (GCR) issued to them by the finance department. These two documents (pay-in slips and GCR) are to be submitted to the internal audit unit before the agreed 30% commissions paid to commission collectors are approved for payment.

In a further analysis, four (4) findings reoccurred twice within the period. The first two (2) amongst the four (4) findings are; the absence of indebtedness schedule/ledger and payment vouchers not properly filled (for example no recipient's signature). These two findings were observed to have occurred in the year 2015 and upon management's strict implementation of auditors' recommendations, they did not reoccur in the subsequent years - 2016, 2017 and 2018.

However, due to change in management and its policies, the two findings reoccurred in the year 2019. The last two (2) audit findings amongst the four (4) are; expired stickers on most containers and vacation of post by commission collectors. Auditors recommended to management to inject youthful persons to collect revenues from areas with very vast coverage and reduce the size of area allocated to each collector. Also, to mitigate with vacation of post issues, management should liaise with opinion leaders and Assembly men to sensitize the community for recruitment of more serious, reliable and hardworking ones to replace the vacated ones.

Table 4.2 below is a summary of audit report findings on IGF from 2015 to 2019

No	Audit Findings	REP	2015	2016	2017	2018	2019
1.	Absence of a monthly Indebtedness Schedule/ledger	<b>A</b>	1	0	0	0	1
2	Most containers had expired stickers	<b>B</b>	1	1	0	0	0
3	Delay in the submission of Revenue Contractors' mobilization	<b>C</b>	1	1	0	1	0
4	Variance in the total grand sum of the receipted IGF compared to the projected revenue figures as at the date of audit	<b>D</b>	1	1	1	1	0
5	Calculated Internally Generated Funds receipted from all the six zonal councils compared to the	<b>E</b>	1	0	0	0	1

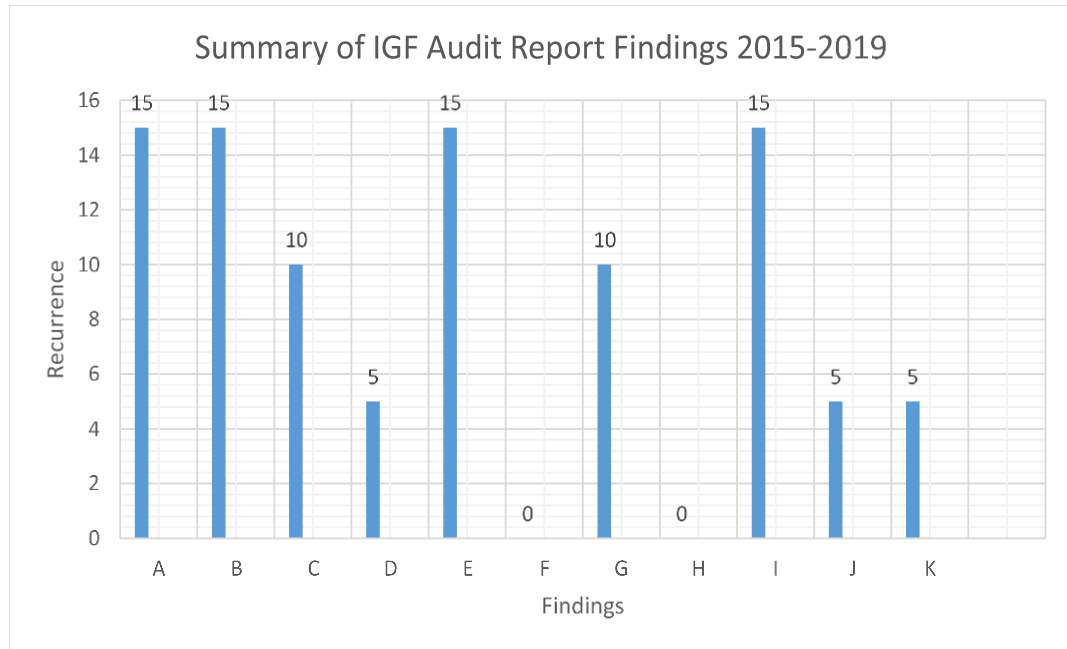
	previous year had huge variance.						
6	Payment Vouchers not pre-audited	<b>F</b>	1	1	1	1	1
7	Vacation of post by Commission Revenue Collectors.	<b>G</b>	1	1	0	0	0
8	Warrants are not signed by the Municipal Budget Analyst, Coordinating Director or Chief Executive.	<b>H</b>	1	1	1	1	1
9	Payment Voucher not properly filled (For example no recipient's signature.	<b>I</b>	1	0	0	0	1
10	Payment Vouchers on repairs without works order and certificate of completion.	<b>J</b>	1	0	1	1	1
11	Payment Vouchers without public expenditure warrant.	<b>K</b>	0	1	1	1	1

**Table 4.2 Summary Analysis of Audit Report Findings on IGF 2015 - 2019**

**Source: Field work, August 2020**

Audit Finding recurring – 1

Audit Finding not recurring – 0



**Figure 4.2 Summary of Audit Report Findings 2015 – 2019**

**Source: Field work August, 2020**

Audit findings that have been repeatedly reported for;

Just ones within the period of five years (2015 – 2019) = 20

Two times within the period of five years (2015 – 2019) = 15

Three times within the period of five years (2015 – 2019) = 10

Four times within the period of five years (2015 – 2019) = 5

Five times within the period of five years (2015 – 2019) = 0

### 4.3.3 Summary of Audit Report Findings on DACF (2015-2019)

The audit report findings on DACF were not so different from the case of IGF. The only audit finding that was predominant within the period (2015-2019) occurred four (4) times (i.e. 2015, 2016, 2017 and 2018) was “failure of the assembly to erect signboards at on-going project sites”. Auditors recommended to management to ensure that signboards are immediately erected at all on- going project sites to provide information to stakeholders and the general public.

However, some audit findings with their respective recommendations occurred three times within the period and these include; Payment voucher not being pre-audited by internal auditor which was reported in the years 2016, 2017 and 2018 consecutively which auditors recommended that Lastly, payment made for alleged monitoring project without report which auditors recommended that henceforth, any officer who pre-finances project monitoring should provide comprehensive report because management makes refund payment.

In addition to the above, six (6) audit findings were reported twice within the five-year period. These are;

- Non-competitive procurement.
- Delay in arrival of common fund.
- Items procured but not routed through stores.
- Absence of contract register for contracts awarded.
- Failure to pay withholding tax deducted to GRA
- Unnecessary deduction of DACF without receipts.

Three (3) among all relevant findings that occurred within the period occurred just once and these are; delay in completion of some common fund projects, expenditure management

warrant neither certified nor authorized, and disbursement of funds without any supporting documents. Recommendations given by auditors in order of how the above findings are stated are as follows;

- Management should as a matter of urgency give the necessary priority to these common fund projects for their early completion.
- Management is to refund all payments made without public expenditure warrant.
- Management should ensure that funds advanced to personnel in future are properly accounted for with the requisite certified documents.

Table 4.3 below is a summary of audit report findings on DACF from 2015 - 2019

No	Audit Findings	REP	2015	2016	2017	2018	2019
1.	Non – competitive procurement	L	1	0	0	1	0
2	Delay in arrival of common fund.	M	1	0	0	1	0
3	Items procured but not routed through stores.	N	1	0	0	0	1
4	Delay in completion of some Common Fund Projects	O	0	0	0	0	1

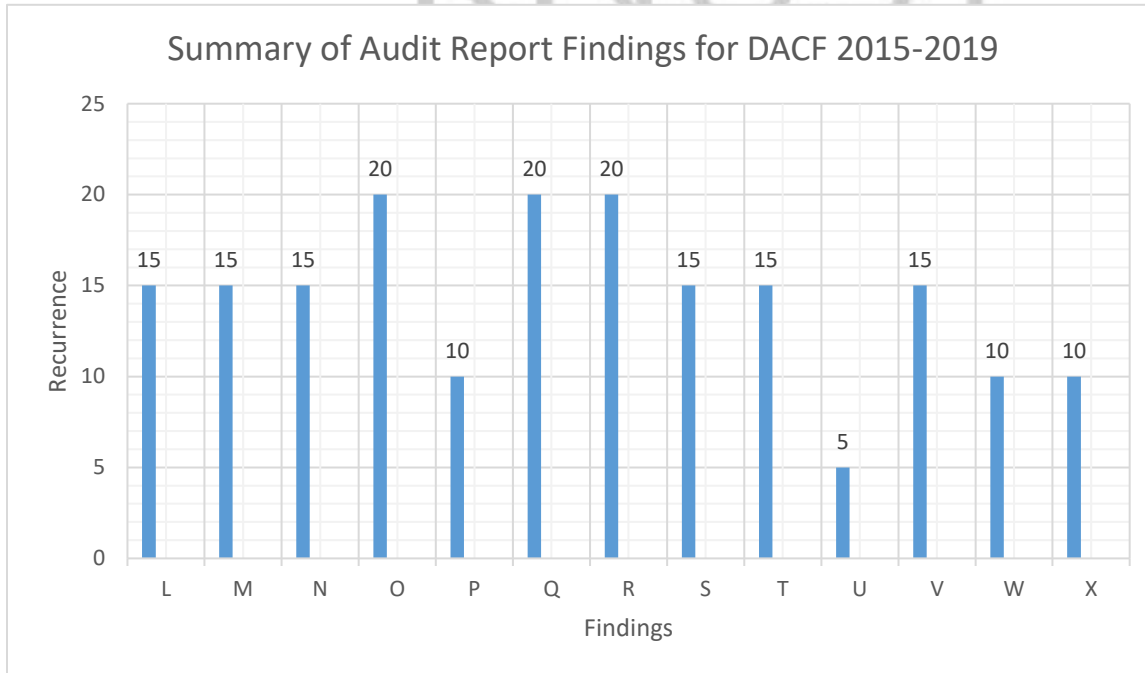
5	Payment Voucher not pre-audited by internal auditor.	<b>P</b>	0	1	1	1	0
6	Expenditure management warrant neither certified nor authorized.	<b>Q</b>	0	0	0	0	1
7	Disbursement of funds without any supporting documents.	<b>R</b>	0	0	1	0	0
8	Absence of contract register for contracts awarded.	<b>S</b>	0	1	0	0	1
9	Failure to pay withholding tax deducted to GRA	<b>T</b>	0	1	1	0	0
10	Failure to erect signboards at on-going project sites	<b>U</b>	1	1	1	1	0
11	Unnecessary deduction of DACF without receipts.	<b>V</b>	0	1	0	0	1
12	Payment of contract certificate not supported with Engineer's progress report	<b>W</b>	1	0	1	1	0
13	Payments made for alleged monitoring of projects without report.	<b>X</b>	1	1	0	0	1

**Table 4.3 Summary Analysis of Audit Report Findings on DACF 2015 – 2019**

**Source: Field work August, 2020**

Audit Finding recurring – 1

Audit Finding not recurring - 0



**Figure 4.3: Summary of Audit Report Findings for DACF 2015-2019**

Audit Findings that have been repeatedly reported on for;

Just ones within the period of five years (2015 – 2019) = 20

Two times within the period of five years (2015 – 2019) = 15

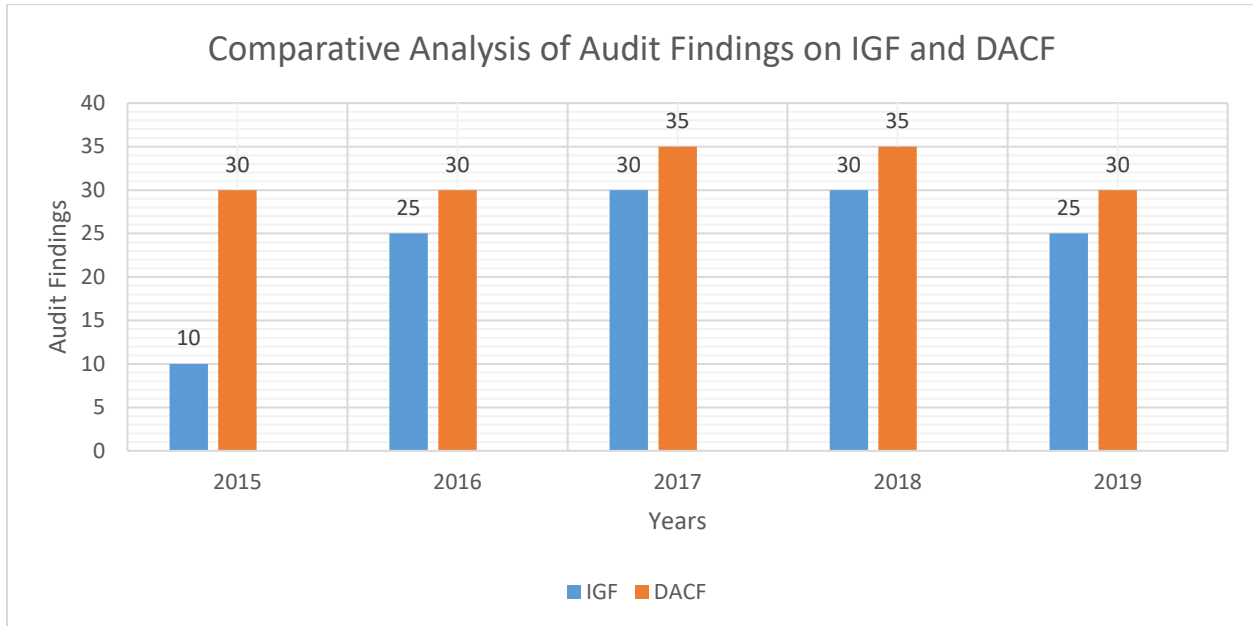
Three times within the period of five years (2015 – 2019) = 10

Four times within the period of five years (2015 – 2019) = 5

Five times within the period of five years (2015 – 2019) = 0

### 4.3.4 Trend Analysis of Audit Findings on IGF and DACF of KEMA

The figure 4.3 below illustrates the summary of the trend



**Figure 4.4: Comparative Analysis of Audit Report Findings on IGF and DACF**

**Source: Field work, August 2020**

Numerical representation for the number of times audit findings on IGF and DACF have been reported for the years 2015, 2016, 2017, 2018 and 2019;

Just ones within the year = 55

Seven times within the year = 25

Twice within the year = 50

Eight times within the year = 20

Three times within the year = 45

Nine times within the year = 15

Four times within the year = 40

Ten times within the year = 10

Five times within the year = 35

Eleven times within the year = 5

Six times within the year = 30

Twelve times within the year = 0

This section illustrates the trend analysis of audit findings on IGF as against DACF of KEMA. The study finds that audit findings on IGF in the year 2015 was extremely high totaling ten (10) findings as compared to DACF which recorded six (6) findings in the year 2015. In 2016, the audit findings on IGF reduced drastically from ten (10) to seven (7) whilst findings on DACF was still maintained at six (6). However, from 2016 – 2019 findings on both IGF and DACF had a steady decrease and increase arriving at the previous total number of findings of seven (7) and six (6) respectively.

#### **4.4 Extent of Implementation of Audit Report Recommendation by Management**

As mandated by section 86 (1) of the Public Financial Management Act 2016 (Act 921) all MMDAs, MDAs and public organizations that the Ghana Audit Service has oversight function on its activities has to establish an audit committee. The audit committee has a responsibility of ensuring the implementation of all audit recommendations. The audit committee of KEMA is constituted in line with section 87 of Public Financial Management Act 2016 (Act 921) with membership drawn from the board, IAA and ICAG.

Table 4.4 below summarizes the extent of management's implementation of audit recommendations made by auditors on audit findings related to DACF and IGF. Each alphabet on the table labeled from A to X has already been presented on the graphs above to represent specific audit findings on IGF and DACF. Based on the review of the responses it can clearly be seen that internal audit effectiveness is on the ascendancy as the internal audit committee have implemented a little over 80% of the audit findings which strengthens the assertion of Eulerich et al (2019) that internal report is of the highest essence to audit committee which in turn translate

into effectiveness in their role. This research also find support for Al-Tawijry et al (2003) who asserts that auditors are compliance drive. By implication due to their compliance–driven nature implementation of audit findings is likely to be above average threshold as indicated form the analysis.

REP	AUDIT FINDINGS	EXTENTS OF IMPLEMENTATION
A	Absence of a monthly Indebtedness Schedule/Creditors' ledger.	The MFO has created one which is yet to be approved by management for use.
B	Most containers had expired stickers	Staff strength of the collectors and their coverage area reviewed during mid-year performance meetings for 2015 and 2016 consecutively. Currently, no container has expired sticker.
C	Delay in the submission of Revenue Contractors' mobilization	The Assembly has organized workshop for the town/zonal council revenue collectors, zonal council secretaries and treasurers to sensitize on revenue and Public Financial Management Law as at 31/12/2019.
D	Variance in the total grand sum of the receipted IGF compared to the projected revenue as at	The Internal Audit Unit has been tasked to undertake field audit of revenue collectors. Staff strength of three was not enough as at 31/12/2017. However, with the assistance of NABCO personnel in 2019, monitoring had been effective to prevent recurrence of the finding.

	the date of audit	
E	Calculated Internally Generated Funds received from all the six zonal councils compared to the previous year had huge variance.	The Assembly has resumed payment of extra duty allowances to the zonal council secretaries who are staff of department of community development as per the content of the original letters issued to them by the Assembly as zonal council secretaries in September 2015.
F	Payment Vouchers not pre-audited	Management has instructed the head of IAU not to post-audit any payment voucher that wasn't submitted by the Finance Department for pre-audit before payment was made.
G	Vacation of post by Commission Revenue Collectors.	The Assembly met members of Ahwiaa Town council and opinion leaders to discuss replacement of collectors and new collectors has been replaced as at 31/12/2017
H	Warrants are not signed by the Municipal Budget Analyst, Coordinating Director or Chief Executive.	The Municipal Budget Analyst, Coordinating Director and MCE have officially submitted templates of their signature to ensure that there is no falsification.
I	Payment Voucher not	Management has instigated that where payment vouchers are not

	properly filled (For example no recipient's signature.	signed by the recipients means such monies were not paid to the designated recipients and as such the Finance Department will be held accountable for a refund into the Assembly's account.
J	Payment Vouchers on repairs without works order and certificate of completion.	The Transport Officer has been charged with a responsibility to ensure that all repairs are done in accordance with the details presented in the works order and the certificate of completion is signed by the Assembly's driver before processed for payment.
K	Payment Vouchers without Public Expenditure Warrant.	Management has notified the IT department of MOFEP on the instability of the GIFMIS system which compels them to make offline payment without a Public Expenditure Warrant.
L	Non – competitive procurement	The Municipal Procurement Officer has been tasked to ensure that all procurement follow protocols of the Public Procurement Act 2016.
M	Delay in arrival of common fund.	The Assembly has no control over the release of the DACF. Usually the 4 <sup>th</sup> quarter allocation is received in the fourth quarter of the ensuing year.
N	Items procured but not routed through stores.	Management requires that, henceforth, all items purchased should be witnessed by the internal auditors and routed through stores before handed over to the beneficiaries especially when the beneficiaries are outsiders.
O	Delay in completion of	Management has agreed to embark on any new projects until all

	some Common Fund Projects	uncompleted and on-going projects are paid and thoroughly monitored to expedite completion.
P	Payment Voucher not pre-audited by internal auditor.	Partially implemented. Management has taken action on that, and from 2019 financial year onwards all Payment Vouchers are pre-audited before payment unless payment is on a matter of urgency.
Q	Expenditure management warrant neither certified nor authorized.	This was unusual and could be oversight as the instability of GIFMIS system at the beginning of the year resulted in work overload on management. However, MOFEP has taken necessary steps to solve the issues on the network instability.
R	Disbursement of funds without any supporting documents.	Management has decided to compile a list at the end of the year for all emergency payments made in order to attach the relevant supporting documents where possible.
S	Absence of contract register for contracts awarded.	The Office of the Coordinator has been charged to update its contract register on timely basis to ensure that all new contracts awarded by KEMA are captured in a contract register in the subsequent years.
T	Failure to pay withholding tax deducted to GRA	In the year 2017, the MCD took the obligation on himself by verifying withholding tax certificates collected from GRA by the Finance department on behalf of the payees to be handed over to them.

U	Failure to erect signboards at on-going project sites	The Municipal Works Engineer has been tasked to inspect each project site after each stage of completion to ensure signboards are still erected.
V	Unnecessary deduction of DACF without receipts.	Management has authorized the Common Fund Administrator not to authorize any deductions at source
W	Payment of contract certificate not supported with Engineer's progress report.	Management has provided to the engineering department the prescribed format for progress report that has to be submitted before subsequent payment will be made.
X	Payments made for alleged monitoring of projects without report.	Strict rules has been set by management on that and all staff in charge of monitoring will have to attach report on their monitoring.

**Table 4.4 Summary of extent of implementation of audit findings (IGF&DACF) 2015-2019**

**Source: Field work August, 2020**

#### **4.5 Nature of Audit Queries for the Past Five (5) Years**

The third objective of the study emphasizes on the nature of audit queries at the assembly (KEMA) which was found out to be repetitive (in nature) due to loopholes or malpractices that

were identified by auditors during the conduct of their audit on IGF and DACF from 2015 to 2019 at KEMA. Many factors contributed to the repetitive nature of audit queries raised in various public sector organizations including KEMA.

#### **4.6 Challenges of Kwabre East Municipal Assembly and its audit practices**

The last objective of the study deals with challenges facing Kwabre East Municipal Assembly and its audit practices. Generally, there are two main responses from this section. The first response from the Municipal Coordinating Director on interview and the general responses from the respondents which were provided by the researcher to solicit the views of the Assembly.

The Assembly has set up Revenue Task Force to improve local revenue generation and plans to retain revenue/commission collectors to improve on their skills. This has not worked to perfection and as a result the Assembly has been hit with low revenue generation. Government grants which could have been an alternative have been unreliable on its flow.

The Budget Unit has been tasked to collate data on properties and business activities in the Municipal for the establishment of accurate database. The unit has not been able to complete the collation of such a complete economic database for the Municipality. There has also been a problem of inadequate residential and office accommodation for staff.

Security/Chieftaincy issues in Kwabre East has been a major canker and has gotten nation-wide attention as there had been an incessant violent clash between the Zongo community and Asante-line in Ahwiaa. Multiple media report confirmed that twenty cars were vandalized and shops looted in the community noted for wooden artifacts in February 4, 2018. A combined police and military team were dispatched to the area to restore law and order. The specific cause of the violent clash was unknown; however, it is believed that the rivalry between the two groups has

been on since 1999 as narrated by the Assembly member for the Ahwiaa-Anyinam electoral area in Kwabre East Municipal Assembly. This has impacted on existing businesses there and yet to be established ones. Developmental projects in the Municipality are at a slow pace as some places within the area have undergone a very long standing litigation in court between the chiefs.

The communities within the municipality have been facing solid waste disposal challenges which have been an albatross around the neck after the Assembly has taken the necessary steps to educate the general public on haphazard disposal of solid waste. Acquiring a new final disposal site has become difficult as community members in every area do not approve for their place to be used because of the side effects which they are afraid might not be well managed by the Assembly. Particularly in Kenyase, the reclamation of the landfill site into its normal state cost the Assembly thousands of cedis which could have been directed to other developmental projects if modern waste management techniques like Waste to Energy had been used.

Roads they say are the arteries of any town or country open up a country for economic and social activity. Poor roads have therefore become an enduring nightmare for motorists and other road users within the municipality, which has a very huge economic and cultural activity and a fast growing population. The towns are known for their distinct features in terms of landmark, cultural and traditional history. The nature of the roads is however, affecting the economic impact these cultural histories and landmarks could have made on the communities where they are located. Tourism which the municipality could leverage on to raise revenue for its development is greatly hampered because the roads leading to the tourists' sites are very deplorable and so makes it difficult to convince any tourist to visit those centers for their relaxation and leisure. Major tourists' sites like Bonwire Kente Weaving center, Ahwiaa Wooden

Carves have faced low patronage due to the deplorable nature of roads leading to these facilities and traffic jam.

#### 4.6.1 Challenges of Audit Practices at Kwabre East Municipal Assembly

**Figure 4.5: Position of Respondents**

**Source: Field Work, August 2020**

Questionnaires were used to seek the views of individuals who were identified to have a role to play in the audit practices of Kwabre East Municipal Assembly. In all, nine (9) individuals were selected for this purpose which includes; Finance Staff, Internal and External Auditors, as well as the Office of the Coordinator. Finance department and district audit office with a frequency of 3 representing 33% each. The number of internal auditors were two (2) and the coordinating director.



Eleven variables were presented on the research instrument to seek the views of respondents on the challenges faced by KEMA in its audit practices. The result is shown in Table 4.4.

The respondents strongly agreed that the external auditors' findings have not been rechecked by the audit committee (with a mean of = 4.67, S.D. =1.00). The respondents also agreed that the review and monitoring of internal auditors' findings and recommendations has been enhanced as well as the chairperson of the Audit Committee (AC) doesn't co-operate with other members before finalizing the agenda of meetings recording 4.33 and 3.89 as mean with 0.50 and 1.22 as standard deviation. This is consistent with Egbunike and Egbunike (2017) in the authors investigation in Nigeria.

The respondents were of the agreement that Matters to be discussed during Audit Committee (AC) meetings are not provided to members ahead of time (Mean = 3.89, S.D= 1.17) and also auditors' over-reliance on inquiry method as a form of audit evidence was the next ranked challenge with a mean of 3.33 and standard deviation of 1.41. This is consistent with Onumah and Krah (2012) who find support for low level of ownership of internal auditors. This can be implied from and is consistent with the situation here, since internal auditors do not have majority share they are less informed or may be even forgotten to be added on time to meeting schedules.

Recording the highest standard deviation among the agreed statements was creating familiarity among staff and internal auditors because the auditors are not being rotated frequently (Mean= 3.33, S.D = 1.66).

The respondents also indicated that the Audit Committee (AC) members are not well paid for their time and efforts (Mean= 3.11, S.D = 1.45) and they also accepted the view that AC

members are not selected in consultation with the chairperson with a mean of 3.11 and a standard deviation of 1.36.

Three statements were rejected by the respondents as a problem facing audit practice at KEMA. The respondents disagreed to the fact that there is lack of rotation of external auditors for the past five (5) years (Mean= 2.89, S.D = 1.62). This finding provide a sharp contrast to the findings of Ngwenya and Kakunda (2014) who established that the lack of rotation of external auditors was impeding the effectiveness of the internal audit process.

The respondents rejected that the audit committee (AC) members did not devote sufficient time towards their affairs also with 2.89 as a mean and 2.03 as standard deviation. Finally, they disagreed that the Internal auditors' independence hasn't been enhanced (with Mean = 2.11 and SD = 1.17).

S/N	Statement	N	Mean	Std. Dev.	Status
1	Management responses of external auditors' findings have not been rechecked by the Audit Committee.	9	4.67	1.00	Accepted
2	Review and monitoring of internal auditors' findings and recommendations have not been enhanced	9	4.33	0.50	Accepted
3	The chairperson of the AC does not co-operate with other members before	9	4.00	1.22	Accepted

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	finalizing the agenda of meetings				
	Matters to be discussed in AC				
4	meetings are not provided to members ahead of time	9	3.89	1.17	Accepted
5	Over-reliance on the inquiry method as a form of audit evidence.	9	3.33	1.41	Accepted
6	Lack of auditors' rotation among internal auditors within the past five years creating familiarity	9	3.33	1.66	Accepted
7	The AC members are inadequately paid for their time and efforts	9	3.11	1.45	Accepted
8	AC members are not selected in consultation with the chairperson	9	3.11	1.36	Accepted
9	Lack of auditors' rotation among external auditors within the past five years creating familiarity	9	2.89	1.62	Rejected
10	The AC members do not devote sufficient time towards their affairs	9	2.89	2.03	Rejected
11	The independence of Internal auditors	9	2.11	1.17	Rejected

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has not been enhanced.

Valid N (list wise)

9

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**Table 4.5: Descriptive Statistics Challenges**

**Source: Field Work August, 2020**

**AC = Audit Committee**

#### **4.7 Discussion of Results**

First, the research sought to analyze the viewpoint of the respondents based on the position of being a finance staff, internal and external auditors or from the office of the Coordinator. This was done to ascertain if the respondents as a different group do accept or reject the hypothesis.

To carry out the analyses, One-way ANOVA test was firstly done. The One-way ANOVA is a method that can be used to equate means of two or more samples. The ANOVA provides an F-statistic, the ratio of the measured variance between the measures to the variance within the samples.

One-way ANOVA

<b>Challenges</b>	<b>Sum of Squares</b>	<b>df</b>	<b>Mean Square</b>	<b>F</b>	<b>Sig.</b>
Between Groups	2.061	3	.687	1.296	.372
Within Groups	2.650	5	.530		
Total	4.711	8			

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**Table 4.6: One-way ANOVA**

**Source: Field Work August, 2020**

If the P-value is below or same as the point of significance of 0.05 it means there are variances between the opinions of the category of respondents. As shown in Table 4.6 P-value of 0.372 was recorded meaning the respondents share a similar opinion on the challenges of audit practices at Kwabre East Municipal Assembly.

To answer the research question “what are the challenges facing Kwabre East Municipal Assembly in its audit practices”, a T-Test was run. A T-Test is when a t-distribution ties the test results, and one wants to check statistically if the null hypothesis is valid. The one-sample t-test is used to evaluate the null hypothesis that the population mean is equal to a given value.

**One-Sample Test**

95% Confidence Interval of the Difference						
Test value =			Sig. (2-	Mean		
0	T	Df	tailed)	Difference	Lower	Upper
<b>Challenges</b>	13.387	8	.000	3.42	2.83	4.01

**Table 4.7: One-sample Test**

**Source: Field Work August, 2020**

The result of the study is similar to the finding of Egbunike and Egbunike (2017); their study explored the challenges facing auditors in the south-east of Nigeria in the public sector audit. Their study found that the internal auditors of public sector entities were facing challenges of

independence and compliance with existing rules and regulations for the management of public funds. Also, the study of Ngwenya and Kakunda (2014) made similar findings.

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## CHAPTER FIVE

### SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS

#### 5.1 Introduction

This chapter shows the main findings, conclusion drawn and researcher's recommendations on assessing the audit practices at Kwabre East Municipal Assembly.

#### 5.2 Summary of Findings

The study assesses the audit practices at KEMA. In specifics, areas examined include the audit practices at KEMA, the extent of implementation of audit report recommendations, natures of audit queries from 2015 to 2019 and lastly, the challenges faced by KEMA and its audit practices.

##### 5.2.1 Audit Practices at KEMA

The study examines that, all auditors (both internal and external) at KEMA are charged with the responsibility based on the mandate of the Audit Service Act 2000, (Act 584) sections 11 and 13. In spite of this mandate, internal auditors in the various MMDAs in furtherance, monitors systems and controls designed by management, risk management, and pre-auditing of payment vouchers in accordance with the Internal Audit Agency Act, 2003 (Act 658). The agency issues annual audit work plan at the end of each year to guide internal auditors in their audit for the ensuing years. Findings from audits conducted on IGF and DACF (2015 -2019) by internal auditors which were violations made by management on the set criteria during their practice were firstly reported on quarterly basis to management in a draft format. Management responded

to findings in each draft quarterly report before the final quarterly report was issued by Head of Unit (internal audit) to management with copies sent to the Director General of Internal Audit Agency, Auditor General, and Regional Director of Internal Audit Unit, Presiding Member and the Minister of Local Government.

External auditors from District Audit Office, Agona also followed the same procedures as Internal Auditors except that they issued only one annual report covering all the activities that were undertaken by the KEMA during the year to the Audit General and PAC. As the two (internal and external auditors) worked in tandem with each other, weak/strong internal auditing increased/decreased the workload of external auditors.

### **5.2.2 Extent of Implementation of Audit Report Findings by Management**

The audit committee of KEMA is constituted in line with section 87 of PFM Act 2016 (Act 921) with membership drawn from the board, IAA and ICAG. The committee is responsible for ensuring strict implementation of recommendations made by auditors to management of KEMA. Audit findings and their recommendations made by auditors (internal and external) are discussed by the Audit Committee quarterly to ensure their implementation by management so as to prevent recurrence. In some instances, the audit committee after its in-depth discussions of audit report findings and recommendations issues its own further recommendations to management of KEMA. However, all recommendations on audit findings IGF and DACF (2015-2019) have been attempted to be implemented effectively by management but the extents were not up to the maximum expectation. This has been the reason why almost all the audit findings from 2015 to 2019 reoccurred either once, twice, or in worst cases throughout the five year period. It was good to observe that none of the recommendations from 2015 to 2019 made by auditors (internal and

external) were rejected by management despite the fact that their full implementations were not enhanced.

### **5.2.3 Nature of audit queries for the past five (5) years.**

The third objective of the study emphasizes on the nature of audit queries at the assembly (KEMA) which was found out to be repetitive (in nature) due to loopholes or malpractices that were identified by auditors during the conduct of their audit of IGF and DACF from 2015 to 2019 at KEMA. Other factors that contributed to the repetitive nature of the queries included but not limited to lack of awareness of laws, existing policies and procedures; absence of qualified persons; deliberate acts related to non-compliance; unauthorized/illegal activities; negligence/non-performance of functions; and others.

### **5.2.4 Challenges facing KEMA and its Audit Practices**

This objective was tackled in two folds and information from the first fold which was generally about the challenges of Kwabre East Municipal entirely was obtained through a one-on-one interview with the Municipal Coordinating Director. The second fold which gives a vivid account on the challenges of audit practices of KEMA was tackled through the administering of questionnaires and collation of secondary data by the researcher. Eleven variables were presented on each questionnaire and an extra column for respondents to state other challenges from their point of view which weren't presented among the eleven variables in Section B of the questionnaires. The responses from the respondents were analyzed using SPSS data analysis and to answer the research question "what are the challenges facing Kwabre East Municipal Assembly in its audit practices", a T-Test was run. A T-Test is when a t-distribution ties the test

results, and one wants to check statistically if the null hypothesis is valid. The one-sample t-test is also applied to evaluate the null hypothesis that the population mean is equal to a given value.

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### **5.3 Conclusion**

This study assesses the audit practices at Kwabre East Municipal Assembly. Specifically, areas such as examining audit report findings and their recommendations, the extents of implementation of audit report recommendations at KEMA, investigating the nature of audit queries for the past five (5) years and challenges faced by Kwabre East Municipal Assembly in its audit practices. Descriptive research method by using quantitative as well as qualitative research design was utilized. Purposive sampling technique to reach respondents who had in-depth knowledge about the subject matter was used. However, in order to give each person equal chances of being selected for the study, random sampling technique was employed to sample nine (9) respondents from Finance Department, Internal audit unit, Office of the Coordinator, and External Auditors from District Audit Office at Agona.

Per the findings of study, although there are couples of lapses that have to be addressed in the way forward to improve on audit practices at KEMA, audit practices have contributed immensely in ensuring operational efficiency and effectiveness in providing developmental projects to Kwabre East Municipal. Audit report recommendations have serious effect on management practices since PAC after review submits its recommendations to the Attorney General to prosecute culprits.

#### **5.4 Recommendations**

Based on the findings on the study, the researcher made the following recommendations below.

In the first place, management of KEMA should consider increasing the number of times within a year that the audit committee members meet to discuss recommendations made by auditors to management. The audit committee as a result can have an in-depth discussion of one topic during one meeting and strictly ensure implementation of findings by management of KEMA.

In addition, auditors (internal and external) should be rotated randomly by the Human Resource Department at least within every five years to minimize the extent of familiarity threats they face during the conduct of their audit. It is important to have at least half of the staff (internal and external auditors) posted out from their station to another station.

In furtherance, remuneration of internal auditors should be re-structured to ensure that they are remunerated on the same level as the external auditors from District Audit Office at Agona. The two (internal and external auditors) are all recognized as professionals by the employer (GoG) but the salary disparity demotivates internal auditors, in effect not allowing them to put up their best efforts.

Moreover, the independence of internal auditors can be enhanced through the change in its structure. Internal auditors at KEMA functionally report to Director General of Internal Audit Agency (IAA) and administratively to the Municipal Coordinating Director of the Assembly. In order for internal auditors to discharge their duties and responsibilities independently from management of KEMA, they should report only to the Director General of Internal Audit Agency both functionally and administratively.

### **5.5 Limitation and Further Studies**

The covid-19 pandemic which was at its peak globally during the time of the study, resulted in hesitation of some respondents to avail themselves for a one-one interview which denied the researcher of some information which could be of relevance to the study.

Also, the researcher was able to cover audit practices at KEMA for only five (5) year period. This was due to the unavailability of data that exceeded five (5) years from the Assembly's (KEMA) records department. However, further studies in the years to come can be expanded in scope to cover ten (10) years.



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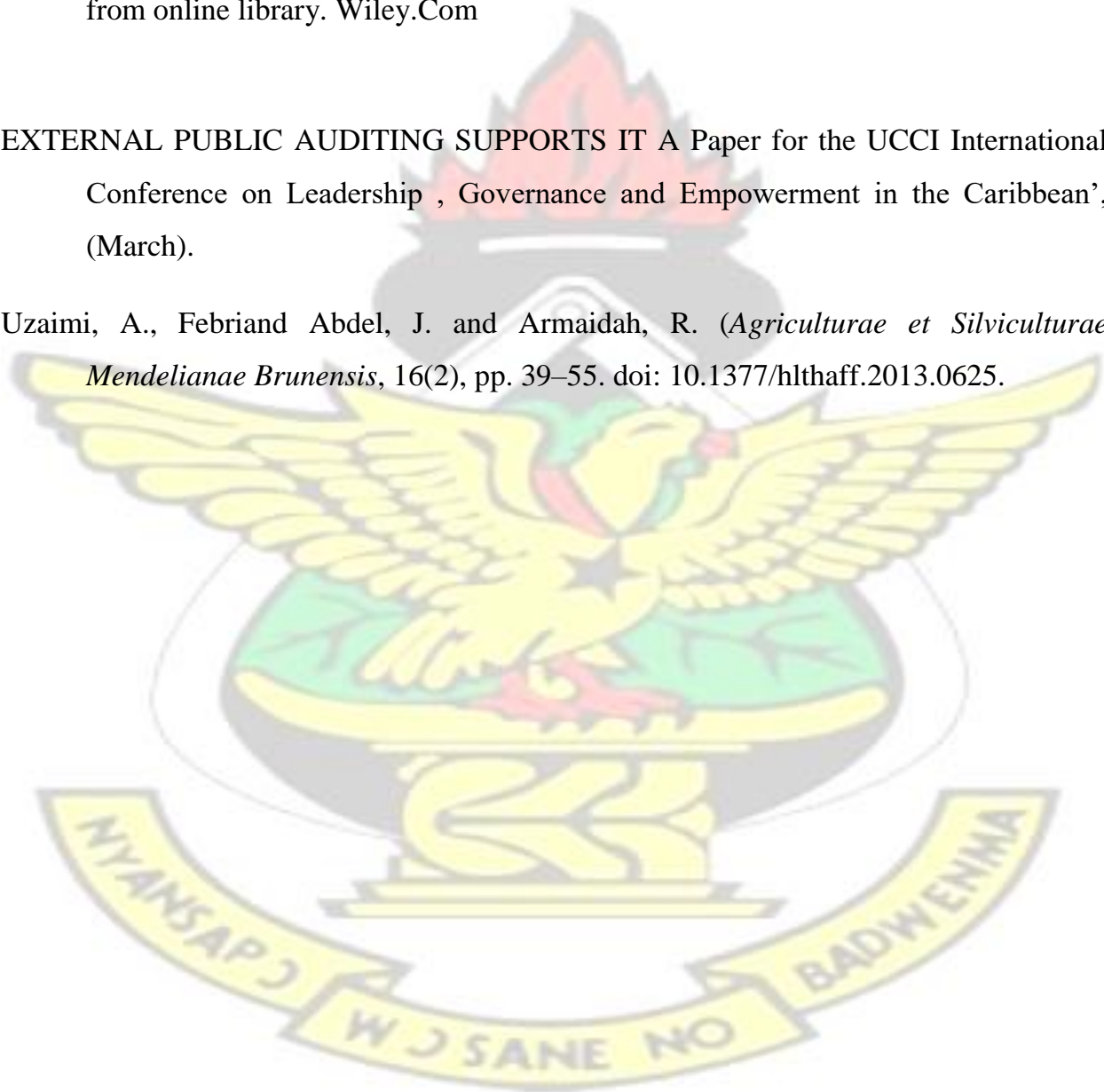
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## APPENDIX

**KWAME NKRUMAH UNIVERSITY OF SCIENCE AND TECHNOLOGY, KUMASI**

**COLLEGE OF HUMANITIES AND SOCIAL SCIENCES**

**SCHOOL OF BUSINESS**

**Department of Accounting and Finance**

Assessing the Audit Practices at Kwabre East Municipal Assembly

This questionnaire is part of a study being conducted by a student of Kwame Nkrumah University of Science and Technology School of Business. You are, therefore, respectfully required to read this instruction and co-operate by providing the answers. You are assured that your responses will be treated as strictly confidential as possible.

### SECTION A

#### Demographic Data of Respondents

1. Age: Below 25  26-35  36-45  46-55  Above 55
2. Gender: Male  Female
3. Qualification:
  - Professional Certificate
  - Master's degree
  - Bachelor's degree
  - Diploma
  - SHS/Technical
4. How long have you worked with your respective department/unit/office
  - Less than 5years  6-10years  10-20years  20years & above
5. Position/Rank:
  - Director
  - Internal Auditor
  - External Auditor
  - Finance Officer/Accounts Officer

## SECTION B

### Challenges faced by KEMA in its Audit Practices

Please kindly tick ( / ) the portion below according to the extent you agree or disagree with the Challenges faced in the audit practices by both internal and external auditors.

**SA=Strongly Agree, A= Agree, N=Neutral, SD=Strongly Disagree, D=Disagree**

No	Variable	SA	A	N	SD	D
6	AC members are not selected in consultation with the chairperson	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
7	The AC members are inadequately paid for their time and efforts	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
8	The AC members do not devote sufficient time towards their affairs	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
9	The chairperson of the AC does not co-operate with other members before finalizing the agenda of meetings	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
10	Matters to be discussed in AC meetings are not provided to members ahead of time	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
11	Lack of auditors' rotation among external auditors within past five years creating familiarity	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
12	Lack of auditors' rotation among internal auditors within past five years creating familiarity	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
13	Review and monitoring of internal auditors' findings and recommendations has not been enhanced	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
14	Management responses of external auditors' findings have not been rechecked by the Audit Committee.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
15	The independence of Internal auditors has not been enhanced.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

