



Internal auditing and institutional performance of local governments in Ghana

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ABSTRACT

Local governments are required to add value to the public good. Internal auditing is a mechanism used to monitor operations of local governments to provide quality municipal services. However, the goods and services delivered are poor. The objective of this paper is to examine the link between internal auditing and institutional performance of four selected local governments in the Central Region of Ghana. Using interpretivism philosophy and in-depth interview design, purposive sampling procedure was used to select 12 key informants to provide primary data using interview guide. The key informants were two internal auditors, two Metropolitan, Municipal, and District Coordinating Directors, four Chairpersons of Audit Committees, three District Auditors, and one Regulator at national level. Secondary data were also collected from various documents through library search. Data were analysed manually using content analysis and pattern matching. The study revealed that the internal auditing carried out did not enhance performance of the selected local governments as they did not perform the day-to-day functions to expectation and sanctions were not applied to perpetrators of irregularities in operations. The performance of local governments is supposed to be enhanced if internal audit recommendations are implemented by management and perpetrators of irregularities are sanctioned.

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1. INTRODUCTION

Local governments (LGs) are the lowest tier institutions in the governance framework of national governments and are closest to the people. LGs consist of interactions, processes, and procedures intended to create benefits for the communities (Gabriel et al., 2019). In their efforts to ensure equity and fairness, LGs collate the interests of the different sectors of the communities and transform them into programmes and projects aimed at providing the needs at the local level. LGs interact among governmental and non-governmental actors (Stubbergaard & Uhlin, 2016). They are a system with responsibilities to promote discipline among the citizenry (Adetiba, 2018). LGs promote justice, human rights, eradication of poverty, gender equality, and efficiency in processes (Cerrillo-i-Martínez, 2017). They subsist on rules to deliver services to citizens (Uddin et al., 2018).

The operational definition of institutional performance is the end results of the day-to-day activities of an institution; and in this context, local government. Institutional performance deals with

the formulation, implementation, or regulation of public-sector activities and private provision of goods and services for the public (Kahwema & Hameed, 2022; Al-Aarajy & Al-Samman, 2021; El Araby & Ayaad, 2019; Letki, 2017). Some efforts have been made to incorporate performance management systems in the Ghanaian Civil Service under a programme known as Civil Service Performance Improvement Plan to ensure value for money in operations (Sosu, 2020). Technical knowledge has a considerable impact on performance (Damayanti & Aswar, 2021). LGs are required to always maintain a code of ethics to guide and help realise performance improvement. The quality of local government performance is assessed in reference to responsiveness and efficiency with the help of internal auditing.

Internal auditing evaluates an institution's internal controls including its corporate governance and accounting processes. It ensures that there is compliance with the laws, policies, and regulations for maintaining accurate and timely financial reporting; and follow-ups to deal with outstanding irregularities which remain unresolved (Bednarek, 2018, Ahmed et al., 2022). Internal auditing plays a vital role to help institutions such as LGs to safeguard their assets and processes with the view to achieve the desired state of affairs (Eulerich et al., 2019; Endaya & Hanefah, 2016). It also provides management with the tools necessary to attain operational efficiency by identifying problems and correcting same before they are discovered in any subsequent audits (Tuovila, 2022). Internal auditing becomes useful to institutions when there are regular communication and sharing of information leading to prudent and judicious use of resources (Chartered Institute of Internal Auditors UK and Ireland, 2020).

The internal auditing processes provide oversight responsibilities on all aspects of institutions and entities whether financial or non-financial; and assist institutions and stakeholders to achieve their objectives by independently examining operations, identifying risks and offering feedback on deviations for implementing controls (Salmasi et al., 2022; Zybin & Biellozorova, 2021). The orderly and procedural approach which characterise the functioning of internal auditing influence the choice of institutional theory as the principal theory for the study. On the other hand, the monitoring functions of the internal audit process necessitated the use of agency theory, which requires oversight over the activities of agents in the principal-agent relationship, as the subsidiary theory.

The institutional theory states that pressures bear on organisations to make them function to expectation (Powell & DiMaggio, 1991). The pressures are both external and internal. Government, industry, and professional guidelines constitute some of the external pressures while laid down rules, regulations, and policies as well as other institutional dicta form the internal pressures. By adhering to the principals of institutional theory, LGs are expected to follow regulations to engender effectiveness and efficiency in delivering service to the citizens.

The agency theory, on the other hand, states that there is a relationship between two parties known as the principal and the agent (Borad, 2019; Essaw et al., 2023). The principal appoints the agent to provide services on his/her behalf. It is expected that the agent performs to serve the interests of the principal. The agent, in most cases, does not perform to the expectation of the principal. This situation is known as the agency loss which has to be reduced to align the interests of the principal with that of the agent. One of the mechanisms used to reduce the agency loss is to monitor the activities of the agent. The internal auditing exercises that monitoring function and there is oversight in operations to achieve corporate objectives.

The people in the communities serve as the principal and the LGs as the agent. Instead of the LGs to perform to raise the standard of living of the people, some of them do otherwise. Internal audit functions have been established to exercise oversight responsibilities over the activities of LGs to ensure that they perform to the expectation of the people. The two theories are relevant to this paper as they seek to explain the phenomenon better.

The Government of Ghana (2003) promulgated Internal Audit Agency Act 658 to ensure value for money in operations to achieve institutional objectives. The requirement of Act 658 to have internal audit units in all Ministries, Departments and Agencies (MDAs) and LGs [also known in Ghana as

Metropolitan, Municipal and District Assemblies (MMDAs)], re-enforces the Government of Ghana (2016a) on Local Governance Act 936 which mandates MMDAs to establish internal audit units.

Despite the functioning of internal auditing in the LGs, the services delivered seem not to meet the expectations of the local people. The reasons for the poor delivery of goods and services are also not known. Additionally, no study has been conducted on the link between internal auditing and institutional performance of LGs. This paper examines, qualitatively, the connection between the internal auditing and performance of the four selected LGs to understand the phenomena of the study. The specific objectives of the paper are to: (a) examine the internal auditing that is carried out in the selected LGs; (b) analyse the District Development Facility (DDF) using the Functional Organisational Assessment Tool (FOAT) performance reports on the selected LGs; (c) examine the district auditors' reports on the four LGs; and (d) make recommendations for the purpose of improving internal auditing and performance of the LGs.

The significance of the study is that stakeholders would understand the circumstances under which internal auditing enhances institutional performance. Generally, the study contributes to knowledge by putting internal auditing in its right perspective and draws attention to its good effects in enhancing institutional performance wherever it is effectively practised. Additionally, it serves as a foundation for similar works in the future.

2. RESEARCH METHOD

Four adjoining local government institutions (LGIs) studied in the Central Region of Ghana were the Cape Coast Metropolitan Assembly (CCMA), Mfantseman Municipal Assembly (MMA), Abura-Asebu-Kwamankse District Assembly (AAKDA), and Twifo-Hemang-Lower-Denkyira District Assembly (THLDDA) as shown in Figure 1. The structure of the LGs in the region at the time of the study in February, 2012, was one Metropolitan Assembly, seven Municipal Assemblies, and 12 District Assemblies; totaling 20 LGs in the region. The four LGs were, therefore, selected across the structure. The only Metropolitan Assembly in the region was selected together with one Municipal Assembly, and two District Assemblies. In selecting the Municipal and District Assemblies, the budget for the study was taken into consideration.

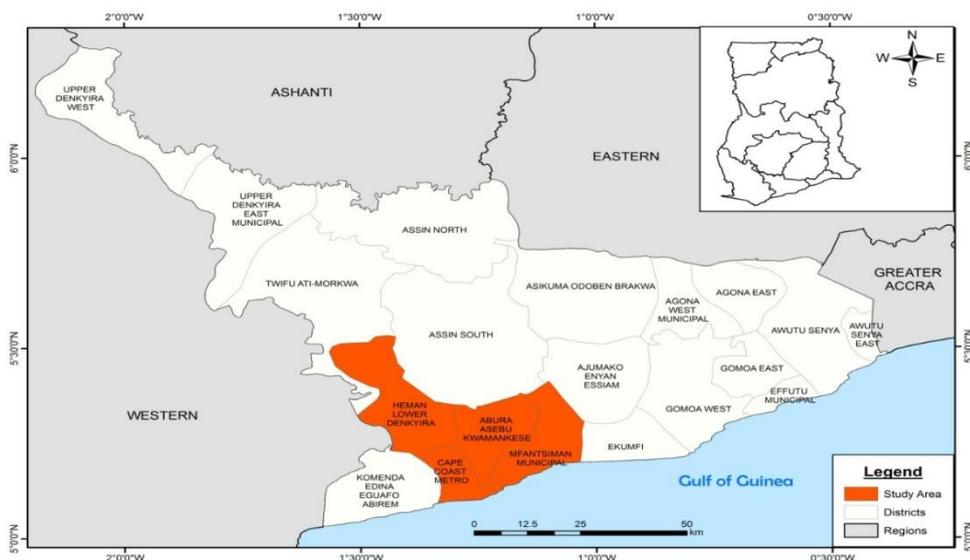


Figure 1. Map of study area in regional context

Source: Department of Geography and Regional Planning University of Cape Coast (2016)

The interpretivism philosophy underpinned the study that favoured the collection of non-standardised and non-numerical data. An in-depth interview was adopted for the study. The interview covered three main areas namely; (i) internal auditing which is carried out in the selected LGs, (ii) 2012 DDF FOAT performance assessment reports, and (iii) 2012 District Auditors' reports. In addition, Auditor-General's reports from 1997 to 2012 were examined through library search. The 1997 to 2003 reports were issued separately year by year but added to the 2004 report as a single document. In this regard, the 1997 to 2003 reports would be found in the audit report of 2004.

The expert method of the purposive sampling technique was used to select 12 key informants who participated in the study to provide primary data. The key informants comprised two internal auditors, two metropolitan, municipal, and district coordinating directors (MMDCDs), four chairpersons of Audit Report Implementation Committees (ARICs), now known as Audit Committees (ACs), three district auditors, and one regulator at the national level. The number of key informants was adequate for qualitative research based on the recommendations of Creswell (1998) of five to 25 participants and that of Morse (1994) of at least six participants. The study sample size was ideal based on the attainment of saturation for qualitative research, which occurred when adding more participants to the study did not result in additional perspectives or information.

Both primary and secondary data were used to formulate the appropriate interview questions to achieve the objectives of the study. Interview guide as data collection instrument was employed to collect primary data while library search was used to collect secondary data. Secondary data were collected from Auditor-General's reports (1997 to 2012), 2012 District Auditors' reports on the respective LGs, and the 2012 DDF FOAT performance assessment reports on the selected LGs. Five field assistants were employed to help in the primary data collection.

Informed consent was obtained verbally from all the key informants as they expressed the desire to be interviewed and recorded. Each informant was assured of anonymity, confidentiality, and the liberty to discontinue the interview, if so desired.

With the support of the field assistants, the data were processed manually to capture the details provided by the key informants. Tape recorders were used to capture the responses to the questions in the interview guide. Data were transcribed, documented, coded and organised in common themes to match the research objectives. They were then subjected to discourse analysis and content analysis.

3. RESULTS AND DISCUSSIONS

Based on the first three specific objectives of the paper, the results presented are on the conduct of internal auditing, analysis of DDF FOAT performance reports, and the examination of 2012 District Auditors' reports.

Conduct of internal auditing

The analysis showed that even though internal auditing was carried out in the LGs, there were irregularities in operations. The reasons for the presence of irregularities were non implementation of internal audit recommendations and political interference. These are by some key informants as follows:

Management does not implement recommendations in internal auditors' reports (A District Auditor, 10th August, 2016).

There is political interference in the work of internal auditors (A Co-ordinating Director, 11th August, 2016).

Most of the external audit reports on the Assemblies that I have seen are similar and they suggest that internal auditors are non-existent (A Regulator at the national level, 3rd November, 2016).

Analysis of DDF FOAT performance reports

The selected LGs passed the 2012 DDF FOAT performance assessment based on the fact that the internal auditing that was carried out conformed to institutional and auditing standards as per Table 1.

Table 1. DDF FOAT performance results of the selected local governments for the 2012 assessment

Performance Results	Source	Remarks
Passed	Co-ordinating Director (24 th August, 2016)	Conforms to standards
Passed	Internal Auditor (10 th August, 2016)	Conforms to standards
Passed	ARIC Chairperson (19 th September, 2016)	Conforms to standards
Passed	ARIC Chairperson (23 rd August, 2016)	Conforms to standards

Source: Author's Compilation (2016)

Two key informants commented on the passes as follows:

We passed the 2012 FOAT performance assessment with the help of the internal auditing that is carried out (A Co-ordinating Director, 24th August, 2016).

The internal auditors have played key role in the success of the FOAT performance Assessment (An ARIC Chairperson, 7th September, 2016).

It emerged, however, that the local government officials did not perform their normal day to day duties to expectation. Rather, they used the performance assessment indicators as checklists to prepare specifically for the assessment and passed. This has been expressed as follows:

With this assessment, no Assembly would pass because they are not performing the day-to-day functions but they use the assessment indicators as checklist to prepare specifically for the assessment and pass (An Internal Auditor, 10th August, 2016).

The poor performance of four local governments in the Central Region has been corroborated by the MLGRD (2013) as follows:

- a. Abura-Asebu-Kwamankese District Assembly
 - 1) The District Co-ordinating Director did not exercise oversight control on management staff to ensure that decisions taken at management meetings are implemented;
 - 2) The District Co-ordinating Director had not operationalised Area Councils to set revenue targets for them to collect the required revenues; and
 - 3) The District Budget Officer and the District Finance Officer were not properly equipped with effective budget control under the composite budget and the warrant systems.
- b. Cape Coast Metropolitan Assembly
 - 1) The District Co-ordinating Director and the District Finance Officer did not ensure that all payments were covered with approved warrants; and were deficient in public financial management and reporting;
 - 2) The District Co-ordinating Director failed to ensure that copies of the Annual Statement of Accounts were made available to the Assembly members on time for their review, to avoid limiting their access to financial information; and
 - 3) The District Planning Co-ordinating Unit (DCPU) members were deficient in Action Planning and Project Management.
- c. Mfantseman Municipal Assembly
 - 1) Management failed to develop efficient revenue mobilisation strategies and targets were not set for each Area Council;
 - 2) Management failed to constitute a board of survey to conduct stock take and cash count at the end of every financial year; and
 - 3) The District Co-ordinating Director, District Finance Officer, and the District Budget Analyst did not ensure that all payments were covered with warrants.

d. Twifo-Hemang-Lower-Denkyira District Assembly

- 1) The DPCU did not supervise the preparation of departmental action plans and failed to ensure that the Assembly's Annual Action Plan reflected departmental plans;
- 2) Management failed to ensure that all payments are covered with approved warrants by intensifying internal controls and compliance with financial management regulations; and
- 3) The District Chief Executive failed to respond to all internal audit queries and did not implement recommendations on time.

Examination of 2012 district auditors' reports

Table 2 presents audit findings and the reasons as provided by three district auditors. The findings were (i) unsupported payments, (ii) failure to present value books for revenue collection for examination, and (iii) improvement in revenue collection. The analysis shows that two district auditors based their findings on failure to comply with control measures while the third district auditor based his findings on an improvement in revenue collection.

Table 2. 2012 audit findings on the selected local governments and their respective reasons by source

Audit findings	Reasons	Source
Unsupported payments	Failure on the part of District Finance Officer to obtain supporting documents on transactions from payees	First District Auditor
The Assemblies did not present value books issued out for collection of revenue for examination	The finance officer failed to present value books issued out for collection of revenue for examination	Second District Auditor
There is an improvement in revenue collection	Management stepped up efforts in collecting revenue	Third District Auditor

Source: District Auditors' Reports (2012)

Discussion

Internal auditing is carried out with the objective of ensuring improvement and propriety in operations. It is expected that once internal auditing is carried out in LGs, their operations would be rid of irregularities. However, the finding of the study revealed some unfavourable reports relating to the presence of irregularities in operations. The irregularities had contributed to poor delivery of services and amenities to the public, thereby making it difficult for the LGs to achieve their performance and other institutional objectives. The finding conforms to Auditor-General's (2018) report that highlights the recurring irregularities due to absence of sanctions against financial and administrative indiscipline, managerial ineffectiveness, and low level of commitment by coordinating directors and finance officers towards enforcing the provisions of relevant legislation and administrative instructions. It is also consistent with the finding of Mihret and Yismaw (2007) that internal audit recommendations were not accorded attention to make follow-up for implementation. However, the result conflicts with the principles of institutional theory, which require laid down procedures and structures to be followed.

Passing the 2012 DDF FOAT assessment with the help of internal auditing suggests that internal auditing was carried out to the expectation and that the monitoring and oversight activities were conducted well. The finding conforms to the 2012 DDF FOAT performance results (Government of Ghana, 2013), which confirmed that THLDDA, CCMA, AAKDA and MMA passed the assessment. Additionally, the finding is consistent with the principles of agency theory, which demand that the oversight responsibilities ought to be carried out in institutions.

The poor performance of some local governments indicate that they were not proficient enough to carry out their duties to produce the desired results. The observation by the internal auditor that local government officials did not perform their day-to-day duties is, therefore, apt. Hence it is not surprising that they had to use the DDF FOAT indicators as checklist to prepare specifically for the assessment to pass. The observation also suggests that the LGs did not pass the assessment on merit. Thus, the claim by the Coordinating Director that the internal auditing that was carried out assisted

them to pass the assessment could not be wholly true. Operating with low capacities and not performing the day-to-day functions as required by the legal and regulatory frameworks of LGs are consistent with the finding of Bangase (2018) that the pass rate of the LGs in the 2015 DDF FOAT report contradict with the findings in auditors' reports, annual progress reports, and reports from the Public Accounts Committee (PAC) of Parliament of Ghana; which had raised queries about most of the LGs which passed the assessment. Similarly, the finding is not in agreement with the principles of institutional theory, which require institutions follow established regulatory and policy framework.

The observation of three district auditors that district finance officers failed to obtain supporting documents on transactions from payees and failing to present value books for collection of revenue for examination were against the laid down practices. These irregularities could be attributed to inadvertence in records-keeping. The magnitude of the amount involved could go unaccounted for thereby, making the consequences of perpetrating the irregularities dire. Laid down procedures were not followed in accounting for resources needed to improve people's livelihoods in the local government areas. The findings conform to Auditor-General's (2007) report that LGs flouted rules and procedures in transactions leading to losses. Additionally, the findings were in line with Chelimo and Kariuki (2013) that there were deficiencies and inefficient use of resources in local authorities in Kenya. However, the findings contrast to Government of Ghana (2016b) Section 13(3) of the Public Financial Management Act 921, which states that fiscal management shall be carried out in a professional and transparent manner and in accordance with best practice and standards. The findings were also inconsistent with the institutional theory, which stipulates that the laid down procedures for accounting for monies expended and receipt books issued out should not be breached.

The finding that a local government institution improved its revenue collection performance might make more resources available for spending to improve living conditions. It conforms to Government of Ghana (2016b) Section 13(2a) of the Public Financial Management Act 921, which stipulates that there shall be sufficient revenue mobilisation to finance government programmes. In addition, the finding is in agreement with the agency theory that stipulates improving and enhancing monitoring strategies in the revenue collection, and minimising revenue leakages.

The irregularities agree with Business Writing Services (2011) that management may not recognise the internal audit department and therefore ignore its activities which would lead to inefficiencies. These findings contrast to the institutional theory, which requires institutions to properly follow policies, regulations, rules, and structures in performing functions.

4. CONCLUSION

The paper has provided evidence in line with the specific objectives of the study. First, the internal auditing which was conducted in the selected LGs did not enhance their performance; the LGs did not perform the day-to-day functions to expectation, and sanctions were not applied to officials who were responsible for operational lapses. Second, all the selected LGs passed the 2012 DDF FOAT performance assessment but their success was enhanced by the use of prior assessment indicators given to them by the DDF FOAT Secretariat as checklists. They, therefore, prepare specifically for the assessment. Third, reports of two out of the three district auditors who took part in the study were not favourable while that of the third one was favourable. Based on the last specific objective of the paper and the conclusions, four recommendations are made. First, the Head of Local Government Service should organise training and other capacity-building sessions for the local government officials to enable them improve their capacities and become proficient; and officers who do not perform the day-to-day duties should be sanctioned. Second, the Head of Local Government Service should sanction officers who are responsible for unfavourable audit reports to deter them from committing further irregularities; while officers who performed to expectation are commended and encouraged for them to keep up their good performance and serve as role models for other officers. Third, the DDF FOAT Secretariat should devise strategies to outwit officials who use assessment indicators as checklists to enable them prepare specifically for the assessment without necessarily seeking the welfare of community members. Fourth, the management bodies of LGs should adhere to and implement

internal audit recommendations. The study has a limitation, which offer opportunities for future research. The findings of the qualitative study are not for generalisation as espoused by Saunders et al. (2012). Therefore, future research should apply the mixed method approach comprising qualitative and quantitative methods and cover a large number of LGs with large samples. Despite the limitation, the caliber of key informants in the study makes the findings relevant.

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