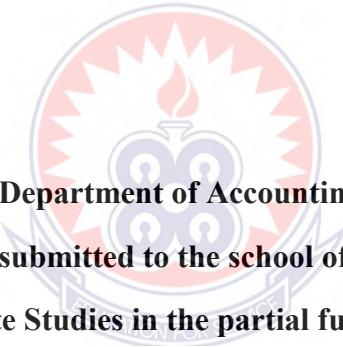


**UNIVERSITY OF EDUCATION, WINNEBA**

**THE EFFECT OF EXTERNAL AUDIT ON FINANCIAL PERFORMANCE AND  
ACCOUNTABILITY OF LOCAL GOVERNMENT ORGANISATION IN GHANA: A  
STUDY OF EFFUTU MUNICIPAL ASSEMBLY (WINNEBA).**

**STEPHEN ARMAH**

**(202141333)**



**A Dissertation in the Department of Accounting, School of Business,  
submitted to the school of  
Graduate Studies in the partial fulfillment  
of the requirement for the Award of the degree of  
Master of Business Administration  
(Accounting Option)  
in the University of Education, Winneba**

**DECEMBER, 2022**

### DECLARATION

I, **Stephen Armah** declare that, this thesis with the exception of the quotations and references contained in published works which have been all identified and duly acknowledged, is entirely my own original work and it has not been submitted either in part or whole for another degree elsewhere.

Signature.....

Date.....

### SUPERVISOR'S DECLARATION

I hereby declare that the preparation and presentation of this work was supervised in accordance with the guidelines for supervision of thesis/dissertation/project as laid down by the University of Education, Winneba.

**Ms. Mavis Pobbi (Principal Supervisor)**

Signature.....

Date.....

## ACKNOWLEDGEMENT

My first appreciation goes to the Almighty God who has been so gracious to me for giving me the wisdom, courage, strength, and ability to bring this work to a final stage. Thank you, God!

I also owe a debt of gratitude to Ms. Mavis Pobbi, my supervisor who helped me in every aspect of the work, her comments and guidance made me stay on course throughout this work.

Since much of the ideas of this research were based on the work of other researchers, I would like to show my appreciation for their contributions.

I am also grateful to the entire lecturers of the University of Education, Winneba School of Business for their immeasurable contributions to making this work a success, may all your works be rewarded with a breakthrough.

I also wish to place on record my gratitude to all my course mates and members who helped in diverse ways during our period of study.

I say thank you, to all...



## **DEDICATION**

This work is dedicated to my loving mother Agnes Baidoo, my wife Winifred Essel, my child Jayden Myles Armah and my entire family who encouraged me, supported me and allowed me to spend a lot of time away from home for me to finish this piece of work.



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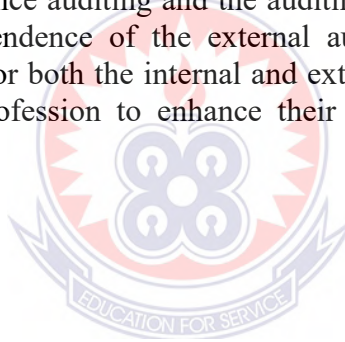
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## ABSTRACT

The roles of external auditors have been under the spotlight due to the strategic positions they occupy to ensure accountability by public sector managers. This study examines the role of external auditors in the financial accountability and transparency regime of the Ghanaian local governance structure. The study analyzed the effectiveness of the external audit engagement, the quality of delivery, and the quality of people and service regarding financial accountability and transparency at the Local Government Organizations. A quantitative approach was used in the form of questionnaires to collect data. A purposive sampling technique was used in the selection of respondents. A sample size of fifty (50) respondents was selected from the Effutu Municipal Assembly comprising management, senior, and junior staff. SPSS was used in the data analysis and the results were presented in tables. From the findings, it was observed that management support the existence of adequate and competent internal audit staff, and approved external audit standards the activities of the Municipal were statistically significant and positively related to the external audit effectiveness to ensure financial accountability and transparency at the Effutu Municipal Assembly. The study recommends that the scope of the internal audit functions should be given a high status in the assembly to avoid manipulation by management. The internal Chief Auditors of the various assemblies should be in high positions as the Finance Officers, this will the internal auditors to operate with a high level of autonomy in their delivery. xiThe scope of the external audit should also include performance auditing and the auditing team should be rotated preferably every year to enhance the independence of the external auditors. There should be in-service training and workshops regularly for both the internal and external auditors to update them on the current trends of the Auditing profession to enhance their competence and knowledge in the profession.



## CHAPTER ONE

### INTRODUCTION

#### 1.1 Background of the study

The problems of misappropriation of funds and weak internal control system have been major problems associated with the Metropolitan and District Assemblies within the country, Ghana. This has called for the public's desire for responsibility and accountability from public employees at all levels. This resulted from the increased embrace of democratic traditions and values worldwide. As a result, Public Sector Auditing (PSA) has gained greater respect from the Ghanaian government and other public sector management players for its contributions to accountability, performance, and the fight against corruption (Asiedu & Deffor, 2017).

In accordance with Article 187 (2) and 253 of the 1992 Constitution of Ghana and section 84 of the Public Financial Management Act, 2016 (Act 921) the accounts of the 260 Metropolitan and District Assemblies across the country should be Audited. The past audit report of these Metropolitan and District Assemblies showed misappropriation and irregularities of funds during the accounting years. The Auditor General's Audit report for the year 2020, showed misappropriations such as cash irregularities, unaccounted payment, the commitment of expenditure without the use of the Ghana Integrated Financial Management Information System (GIFMIS), unaccounted revenue, and unrecovered salary and rent advances to staff. This has called for an increase in demand for accountability from the management of the District Assemblies across the country.

The concept of making public officials responsible and accountable appears appealing at first. However, a closer analysis reveals various challenges that necessitate policy recommendations and discussion to make the notion of operational accountability of public servants. However, the

government is cognizant that effective accountability will result in the success of government programs and activities (Christie, 2018).

Inadequate accountability in government organizations has a higher probability of undermining the government's efforts to improve the standard of living in the country and can also prevent the government from achieving its objectives and stated goals. As a result, the Audit Service Act, of 2000 (Act,584) established the Ghana Audit Service to ensure accountability at all levels in the public sector organization in the country.

There is an expanding body of research on public sector accountability and auditing, as shown by Singaravelloo (2018), Royo et al. (2019), Anand and Sossin (2018), Hyndman and McConville (2018), Abidin (2018) and others. However, it is clear that there isn't much of this research in Ghana. This research explores the external auditors' function in Ghana's local government accountability structure.

The scope of an external audit is usually confined to a financial and compliance audit to satisfy the statutory responsibility of the external auditor, which requires an examination of the accounts and providing an opinion as to whether the financial statement produced provides a true and fair manner. The function of the independent external auditor is intended to ensure credibility in the organization's financial reports and compliance with regulations. Auditors are again, able to objectively evaluate the effectiveness of internal controls within an organization, hence making the organization's information users and stakeholders monitor and assess the financial performance of the organization resulting in transparency, honesty, and accountability from management. An external audit serves as an important economic purpose to the public by boosting confidence and trust in financial reporting and strengthening accountability (Institute of Chartered Accountants in England and Wales, 2005). The audit also protects the concerns of the different stakeholders of business stakeholders expect that an external audit should enhance the

credence of the financial statement and that the information contained does not contain material error, misrepresentation, and fraud because an audit has been conducted by an independent professionally competent auditor who possesses sound knowledge of the company's business and the requirement of financial reporting (Dawkins,2015).

Accountability is the way of taking responsibility for one's decisions or actions and giving accounts of the decision taken. Accountability in itself is a way of being transparent, honest, and truthful in all dealings in public organizations or private organizations. Auditors' work recently has gained momentum in scrutinizing the financial performance of non-government organizations and public sector organizations such as local government organizations, the private sector as well the non-governments organization by way of making them accountable for their decisions or actions based on their financial statements. Traditionally, the audit was associated with gaining information about the financial records and systems of a company or an organization. But audit now goes beyond mainly gaining information about the financial systems to providing the reasonable assurance that the statement provided by these organizations are free from material misstatement and any fraudulent activities and ensures that funds are well appropriated for what they are intended for. With non-profit organizations and government agencies, there has been an increasing need for performing an audit, examining their success in satisfying the mission objective of the business organizations. Audit theories provide a framework for auditing, and uncover the laws that govern the audit process and the relationship between different parties of a firm, forming the basis of the role of audit.

## 1.2 Statement of the Problem

The problems of misappropriation of funds and weak internal control system in the local governments (MMDAs and District Assemblies) which lead to the appointment of audit staff under the Financial Administration Decree, 1979, SMCD 221 kept repeating with no improvement on an annual basis because staff appointed by these decrees mainly concentrated on the pre-auditing of payment vouchers due to lack of formal training in auditing.

There was also a conflict of interest with officers having to perform the roles of Accountant and Internal Audit in the same department. Ineffectiveness, lack of integrity, and accountability became apparent in these government organizations of which the Local government organizations and the Municipal Assemblies were not excluded. Many funds from the consolidated fund are channeled to these local government organizations and for that matter, it calls for the need to maximize the effectiveness and accountability of such funds, Abbey, C.P (2010). A review of this function revealed limitations on the scope of internal audit functions and unsatisfactory financial reporting relationships. This resulted in the establishment of a central internal Audit Agency to enhance efficiency, accountability, and transparency in managing resources in the public sector.

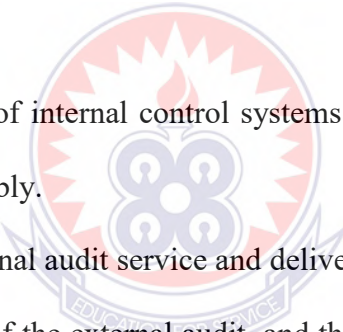
The lack of independence of this internal audit in their quest to enhance accountability, transparency, and proper financial reporting due to the numerous interferences by the administration of this organization weakens the effectiveness of the internal audit functions. This lack of independence on the path of the internal auditors has led to the misappropriation of funds by the management of the local government organizations and District assemblies. The internal Auditors' integrity and independence have been compromised with issues relating to misappropriation and the internal auditor fails to report on those issues, weakening the organization's internal controls. As a result of these issues relating to the internal audit, the Audit Service Act, 2000 (Act, 584) established the Ghana Audit Service to act as an independent body

ensuring accountability at all levels in the public sector organization in the country.

### **1.3 Purpose of the Study**

With the inability of the internal auditors to uncover fraud and misappropriations of funds in these government organizations, there was the need for the independent external auditor to investigate the financial transactions of the publicly financed organizations in which money from the consolidated fund are channeled to finance their activities and this is throwing more light on how external audit impact the financial performance and accountability of the municipal assemblies in Ghana, but due to the geographical location of the researcher, the study is narrowed to the Effutu Municipal Assembly in the central region of Ghana.

### **1.4 Objectives of the Study**

- 
- To assess the effectiveness of internal control systems on the financial performance of the Effutu Municipal Assembly.
  - To assess the quality of internal audit service and delivery as a guide to external audit work.
  - To assess the effectiveness of the external audit, and the reliability of their service on the financial performance, and accountability of Local government organizations.

### **1.5 Research Questions**

- What are the factors that hinder the effectiveness of the internal control system on financial performance in the Effutu Municipal Assembly?
- What specific roles does the external auditor play in enhancing the accountability of the local government organization in its financial activities?
- What is the impact of external auditing on the operations of the district assemblies?

## **1.6 Significant of the Study**

This study aims at asserting and enhancing the degree to which external audits as part of control measures in the Effutu Municipal Assembly will help improve the financial performance, transparency, and accountability in the utilization of resources and to build the confidence of the citizenry in the activities of the municipal. The study also aims at cutting a clear line between the functions of the accountant and the internal auditor to enhance compliance in the Effutu Municipal Assembly.

## **1.7 Justification of the Study**

This study adds to the body of knowledge regarding the impact of external auditing on local governments.

This study sheds light on the importance of external auditing for raising local government performance.

Understanding the impact of external auditing on performance will benefit the government and policymakers within government organizations.

## **1.8 Organization of the Study**

Five chapters make up the thesis statement. The introduction is the first chapter's main section, and it is further divided into the study's history, problem statement, goals, relevance, and organizational sections. A review of the theoretical underpinnings, empirical literature, and conceptual framework makes up chapter two. The research approach used for the study is described in chapter three.

In Chapter four, the study's findings and/or outcomes are presented and discussed. The important findings, conclusions, recommendations, and ideas for additional research are summarized in Chapter five.



## CHAPTER TWO

### LITERATURE REVIEW

#### 2.1 Introduction

The public requires full accountability from those elected and appointed to handle and manage public monies and resources (Zinyama, 2013; Rosa & Morote, 2016). Ntim et al. (2016) also hold that public resources ministers, elected members, managers, and other officials must account for the resources under their care. In this context, public sector auditing is expected to be an essential nexus in the chain of accountability. This is so because Hay and Cordery (2018) and Yang and Northcott (2019) maintain that auditing strengthens accountability, both outwardly through to the elected officials who provide the monies and outwardly through to the beneficiaries, taxpayers, and the public.

While there has been much research on public management and performance auditing in central government, local government has been relatively neglected in the literature. Municipalities and countries in local governments have an important role in public sector service production in most European countries, especially in the Nordic countries, Accounting in Europe, 2015 - Taylor & Francis. It is therefore surprising that performance auditing in this context has received so little scholarly attention. This study is aimed at filling some of this gap. The purpose of this comparative study is, therefore, to explore how performance auditing practices, including performance measurement, are used to assess and verify value for money in local government and to enhance the accountability of municipalities.

The previous chapter described the research problem, objectives, and questions among others. This chapter focuses on the review of literature that is important to the issues examined in this study, that is the effect of external audit on financial performance and accountability of the municipal

assemblies in Ghana the case of the Effutu Municipal Assembly. Specifically, this chapter tries to review the various theories and empirical studies related to the study. This chapter also elaborates on the objectives of auditing, the factors that affect the independence of the auditor, and other crucial factors that help to make audit work successful. This chapter among other things aims to provide a comprehensive insight into the theories and related empirical studies on the effect of external auditing on the achievement of a stabilized and strong financial system for the municipal assemblies across the country of which Winneba Municipal Assembly is selected for this study. Many theories may explain the demand for audit services in modern societies. Different theories have been formulated to validate the need for audit functions. The Agency theory is a valuable economic concept based on accountability which supports the emergence and growth of audits, Institute of Chartered Accountants in England and Wales (ICAEW,2015).

Agency theory is extensively employed in the accounting literature to explain and predict the appointment and performance of external auditors. Agency theory also provides a useful theoretical framework for the study of the internal auditing function. It proposes that agency theory not only helps to explain and predict the existence of internal audit but that it helps to explain the role and responsibilities assigned to internal auditors by the organization, and that agency theory predicts how the internal audit function is likely to be affected by organizational change. It concludes that agency theory provides the basis for rich research which can benefit both the academic community and the auditing profession. (Adams, M.B., 1994).

Other theories such as the contingency theory, theory of inspired confidence, the policeman theory, and the credibility theory also throw more light on the functions and the effect of audits on the financial performance and accountability of organizations which will later be discussed in the literature review.

## **2.2 Accountability**

Diverse authors and authors from different backgrounds have defined the word accountability differently and from different perspectives. Ferry and Murphy (2018) define accountability as being answerable to someone or a group of people for performing specific tasks necessary to fulfill duties, responsibilities, and other charges.

Also, in the opinion of Royo et al. (2019), accountability is the commitment and obligations of individuals or entities assigned with public resources to be answerable for the financial, managerial, and program responsibilities given to them and report to those that gave them the responsibilities.

Simply put, the concept of accountability involves holding someone responsible for his/her actions by somebody in a predetermined and prescribed form. Underlying these definitions is the notion that individuals trusted with public funds had a legal responsibility to disclose how they allocated these resources, and the results accomplished from using the resources (Winyama, 2013)

### **2.3.1 Theories on Auditing**

Theories are meant to explain a particular phenomenon. To explain the behavioral issues relating to auditing, the study will review some very crucial theories to audit work.

Several different theories may explain the demand for auditing services. Some of them are well-known in research and some of them are based on perception. Hayes, (2005) came out with four theories of auditing we look deeper into some of them below.

### **2.3.2 The Agency Theory**

One of the theoretical frameworks that will support this research is the agency theory which for long has advocated for transparency and accountability when it comes to serving owners' and

stakeholders' interests (Kassem & Higson,2016). The concept of agency theory clearly outlines the set of rules which oblige management to offer assurance by availing their financial statements to be assessed by an independent evaluator to express their opinion on the true state of affairs to stakeholders. (Herron & Crawford,2016).

A related theory that reaffirms this concept is enterprise risk management which is equally cautious management of the risk of financial misappropriation and fraud that is capable of ripping the entire organization as it occurs in Eron's case and many other companies which collapse due to high-level of scandal as a result of lack of due process and monitoring in the United States of America which resulted in the enactment of the Sarbanes-Oxley Act of 2002 (Blair,2016).

Agency theory suggests that the auditor is appointed in the interests of both the third parties as well as the management. An organization is viewed as a web of contracts. Several groups (suppliers, bankers, customers, employees) make some kind of contribution to the organization at a given point in time. The task of the management is to coordinate these groups and contracts and try to optimize them.

Literature has it that the genesis of financial audit and the entire auditing concept came into being at the time that the market needed evidence of fraudulent activities of some unscrupulous public sector auditors who took advantage of owners and investors in the early 1930s and connived with managers and chief finance officers to outsmart all forms of controls and diverted funds illegally (Thibodeau & Freier, 2014). Passing judgment on complex accounting records involving public finance and resources management and appropriation in an unbiased fashion required autonomous powers devoid of undue influence and threat of job insecurity if the public sector auditor is to achieve maximum professionalism grounded in a high level of ethical standards. The big question is how independent is the auditor if a huge sum of funds is still going missing amidst strict internal

controls and bureaucracy involved in approving public expenditure. (Barton & Bruder, 2014). The auditing practice has gained ground in both public and private sectors of Ghana and its application is well appreciated however the challenge of ensuring total independence of management or government is a matter of concern that needs to be addressed with urgency considering the public outcry for lack of confidence and integrity in state institutions. The Audit service Act 2003, The Financial Administrative Act 2002, the 1992 constitution of Ghana, and the procurement Act 2003 are all full operations yet the public sector is still plugged into an era of financial misappropriation.

An audit provides an independent check on the work of agents and the information provided by the agent, which helps maintain confidence and trust.

### **2.3.3 Trust**

The simplest agency model assumes that no agents are trustworthy and if an agent can make himself better at the expense of the principal, then he will. This assumption ignores the likelihood that some agents will be trustworthy enough to work in the interest of their principal whether or not their performance is being monitored and output measured. Therefore, the degree of untrustworthiness is a key factor in determining the extent to which incentives and monitoring mechanisms need to be put in place.

### **2.3.4 The Expert Auditor**

The idea of auditors being impartial specialists was not widely held in the past. According to Watts and Zimmerman, corporate audits were frequently carried out in the middle of the nineteenth century by individual shareholders whose independence from the agents running the company was not a problem. Audits of merchant guilds were carried out by a committee of guild members. Principals, therefore, served as auditors. However, in many agency arrangements, the principals lack the knowledge and ability to determine if the agents have fulfilled their obligations. When

faced with such knowledge asymmetries, principals often turn to specialized auditors in modern times. However, the hiring of specialist auditors results in a new agency relationship, which affects confidence and raises fresh concerns about their independence.

We have thought about the function of audit as a way to resolve principal-agent conflicts, but this model is a little too simple. Beyond the shareholder-director connection, there are further difficulties to take into account, such as the interaction between auditors and other stakeholders who assert an interest in the audit's results. Wherever audited data is available to the public, for instance, it will be seen as a public good and other stakeholders are likely to use it. These stakeholders may not easily fit into the principal-agent paradigm presented in agency theory since they have different interests. Consequently, the audit's job is more intricate.

### **2.3.5 Auditors as Agent**

If a simple agency implies that principals do not trust agents to provide them with reliable and relevant information concerning financial transactions, then they will hire an external expert independent of these agents. This, however, introduces the concept of an auditor as an agent of the principal which leads to new concerns about trust, a threat to objectivity and independence.

When completing an audit, auditors serve as the principals' agents, and as a result, this connection raises comparable issues of trust and confidence in the director-shareholder relationship, raising concerns about who is auditing the auditor (Gavious, I., 2007). The requirement for additional incentives to align interests, monitoring measures like audits, or higher regulation may not be necessary for agents (whether they be directors or auditors). However, the basic agency model would imply that agents are unreliable. Auditor interests and motivations should be taken into

account, just like those of directors. For instance, auditors may be risk averse and, realizing their possible liability, adopt risk management procedures that result in scope restrictions for their work and disclaimers in their reports, which may irritate principals. Shareholders place a high value on the independence of the auditor from the board of directors, which is viewed as a critical component of audit quality. Nevertheless, a tight working connection with a company's board of directors is necessary for an audit.

Shareholders have questioned the perceived and actual independence of auditors as a result of this intimate relationship, and they continue to do so while calling for more regulations and norms to maintain that independence.

As far as independence and objectivity are concerned, auditors need to be conscious of threats to objectivity and apply suitable safeguards where necessary. Reputation is a key factor in promoting trust and auditor independence is an important quality that shareholders look for. Auditors have an important incentive to maintain independence to protect their reputation and thereby help them to retain and win audits. As far as independence and objectivity are concerned, auditors need to be conscious of threats to objectivity and apply suitable safeguards where necessary. Reputation is a key factor in promoting trust and auditor independence is an important quality that shareholders look for. Auditors have an important incentive to maintain independence to protect their reputation and thereby help them to retain and win audits. As far as independence and objectivity are concerned, auditors need to be conscious of threats to objectivity and apply suitable safeguards where necessary. Reputation is a key factor in promoting trust and auditor independence is an important quality that shareholders look for. Auditors have an important incentive to maintain independence to protect their reputation and thereby help them to retain and win audits.

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## **2.4 Contingency Theory in Auditing**

The goal of an audit is to test the reliability of an institution, company, or organization's information, policies, practices, and procedures. Government regulations require that certain financial institutions undergo an independent financial audit, but industry standards can mandate audits in areas such as safety and technology. Regardless of the audit subject, various factors impact a company's final results, and the contingency theory takes these factors into account during the audit process. The contingency theory of leadership and management states that there is no standard method by which an organization can be led, controlled, or managed. Organizations and their functions depend on various external and internal factors. The functions of the audit are themselves, the type of organization that is affected by various factors in the environment. The process of such factors is why auditing can be managed by applying contingency theory, with a recognition that processes and outcomes of audits are dependent on variable and contingent factors.

### **2.4.1 Audit Mechanics and Contingencies**

The audit procedure is easy to understand in general. Access to records, systems, policies, and procedures is necessary for auditors to manage an audit. They must continue to adhere to company standards, governmental directives, and internal requirements. The audit process may start with meetings where audit teams learn about risk and controls before going out on the field. Auditors conduct in-depth procedures and test controls throughout the audit process. They then create



reports that they deliver to management and governing bodies. Contingencies such as business kind, employee skill level, applicable legislation, available audit workforce, available technology and systems, and deadline are included in the audit subprocesses, especially in planning and fieldwork.

#### **2.4.2 Applying Contingency Theory**

Audit functions are task-oriented and can be loosely structured, according to Richard L. Daft in his book *Organization Theory and Design*: "Contingency means: one thing depends on other things" and "Contingency theory means: it depends." Auditors must carefully organize their inspections and consider variables to complete the work because the functions can also differ significantly depending on the location of a company that is being audited and the type of business model. The structure of an audit team can also be analyzed using the contingency theory. Managers of audit teams typically get audit projects. They then put together ad hoc audit teams for the projects, choosing the auditors based on their level of subject matter knowledge and experience as well as their availability, which together make up the contingencies for each specific audit assignment.

Contingency theory suggests matching the best leader to a specific situation based on situational factors and the leadership style. The practical application of theory can be done in various ways. The workplace example is to determine the best candidate for a given set of requirements using the Least Preferred Co-Worker (LPC) score. Applying the model to determine a leader's ability to adapt to the scenario of a new project. Contingency theory has many applications in the organizational world:

Can be used to assess the effectiveness of an individual in a particular role and look at the reasons for one's effectiveness or ineffectiveness. it can also be used to predict whether a person who has worked well in one position in an organization will be equally effective in another position having

different situational variables when compared to the existing position based on the contingencies that make one's style effective. Also, it can help in implementing changes in the roles and responsibilities that management might need to make to bring effectiveness to the role of the person leading the same.

#### **2.4.3 Key Strengths of Contingency Theory:**

- i. Contingency theory is grounded in research as many researchers have tested it and found it to be a valid and reliable approach to explaining how effective leadership can be achieved.
- ii. This theory considers the impact of situations on leaders and focuses on the relationship between the leader's style and the demands of various situations.
- iii. Third, contingency theory has predictive power, and based on conclusions from the LPC scale and understanding the context of the workplace situation one can determine the probability of success for a given person in a given situation.
- iv. From an organizational perspective it supports the identification of optimal roles based on individual leadership styles and placing leaders in charge of situations that are ideal for their leadership style.

#### **2.4.4 Benefits**

To get results rapidly, audit teams combine structure and contingency. Projects involving auditing can cover a wide range of topics, including assessing the effectiveness of production processes, checking the financial records of the business, and determining whether regulations are being followed. The learning curve is minimized and the likelihood of error is decreased by choosing auditors with specialized training or those who have a specific skill set in the subject area. When audit teams utilize resources according to knowledge and experience, and when auditors are

adaptable and can adjust to process fluctuations, the quality and output of audits remain guaranteed. For instance, a bank or hedge fund audit can be successful with the help of an auditor who has experience analyzing financial instruments even when the institution's financial instruments are complex.

## **2.5 The Theory of Inspired Confidence**

The theory of inspired confidence posits that auditors are confidential agents whose roles emerge from the need to exercise professional expertise and make independent judgments (Ivungu et al., 2019). The theory provides a connection between the ability of the practitioners to meet the needs of users and extending tenures. The theory focuses on both the demand and supply of audit services. The relationship of accountability is realized with financial statements; however, as outside parties cannot monitor any material misstatement or bias in financial reports, the demand for an independent reliable audit arises. The supply of audit services should satisfy the public confidence that arises from the audit and fulfills community expectations, as the general function of audit is derived from the need for independent examination and an expert opinion based on findings; due to the confidence society places in an independent auditors' opinion. It can be assumed that if society lost confidence in audit opinion, the social usefulness of audit would cease; as audit delivers benefits to the users of financial statements. The auditor should maintain appropriate business practices to maintain his independence from the firm being audited, satisfy his obligation to examine business practices and provide a credible opinion on the financial statements.

### **2.5.1 Auditor as Confidential Agent**

the theory of inspired confidence states that the auditor, as a confidential agent, derives his broad function in society from the need for expert and independent examination and the need for an expert independent judgment supported by the analyses. Thus, accountants and auditors are

expected to know and realize that the public continues to expect a low rate of audit failures, which requires that the auditors must plan and perform their audit in a manner that will minimize the risk of undetected material misstatements. The accountant is under a duty to conduct his work to not betray the confidence he commands (Limberg et al., 1985). The importance of the theory of inspired confidence is that the duties and responsibilities of the auditors are a derivation from the trust that is bestowed by the public on the success of the audit process and the assurance that the opinion of the accountant conveys. Since the trust determines the existence of the process, a betrayal of this trust logically means a termination of the process or function. Carmichael (2004), in discussing the social significance of auditing stated that when the confidence that society has in the effectiveness of the audit process and the audit report is misplaced, the value relevance of that audit is destroyed. Therefore, auditors are expected to maintain reasonable quality assurance especially given that an audit failure is effectively a career-ending event. Auditing assures the owners and management of companies, investors, and stakeholders, and financial reporting, corporate governance, and regulations support confidence in the capital markets.

## **2.6.0 Empirical Review**

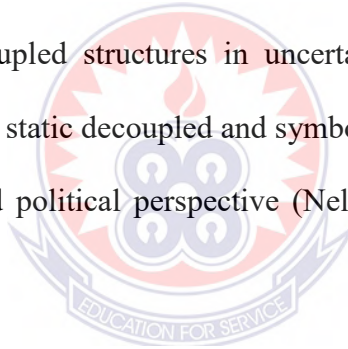
### **2.6.1 Performance Audit in Local Government Organizations**

Performance auditing has received increasing attention as a promising management tool for local governments. Advocates for performance auditing have made fervent, perhaps extravagant promises for this technique. An early essay asserted that performance auditing might act as "the eyes and ears of public authorities and the people," and that it would increase accountability while reducing expenses and increasing efficiency.

(Age Johnson et al., February 2001) concluded that regarding the two propositions on decoupling and symbolic use of information, the result, in general, did not warrant us to state that there was

widespread decoupled and symbolic use of performance audits, rather on the contrary. It is this respect that necessitated devoted attention to the link between performance audit information and the ambiguity of goals in the local governments. The ways of using audit information are related to conceptions of auditors, auditees, and other stakeholders on the methods of decreasing uncertainty and goals ambiguity and enhancing the legitimacy of public services. Both the cases of Finland and Norway provide some evidence of that aspect. It seems to be fair to conclude that performance auditing has special instrument functions in local government. Moreover, in performance audit reports, 594 of the European Accounting Review are used, albeit somewhat differently than might have been expected, by the decoupling and symbolic prepositions. Compared to financial statement auditing, performance auditing has a more conspicuous connection to both performance improvement and day-to-day management processes in the municipalities. Particularly, the third preposition (mimetic isomorphism under uncertainty) there is judged to be supported by the findings of this study. Based on the data collected and judged by a relatively high emphasis on management by objectives and the prominent position of private accounting firms in the Finnish municipal audit market, it seems likely that audits in Finland were relatively more of a management consultancy style. In Norway, especially due to the low degree of involvement of the auditees in the clearance process, the performance audit seemed to be more inclined to the public accountant's style compared to the Finnish case. I think the study has two major implications for theory and practice in enhancing the understanding of how performance audits in political institutions may have been important instrumental and political functions. Firstly, it is necessary to pose a question as to what extent performance audits can be part of the process of determining 'correct' and 'incorrect' goals for local government organizations. This is one of the prominent future dilemmas in performance audits. What if there are no explicit goals to audit...? As it was in the Finnish case, this is part of the realm of performance auditing. Not necessarily all the issues that

are exposed are considered important from the viewpoint of the three E's, service quality, equity justice, or other relevant evaluation criteria, have been regarded as such ex-ante. Often many issues are of no special substance at the time when principal make their decisions on priorities and resource allocations, but there are extremely important at the time when auditing occurs. The problem in the intertemporal comparison of preferences makes, not only the decision-making processes in the local government organization but especially the auditing of those activities and decisions, complicated (March 1978, 1988). The emphasis on value for money clearly magnifies the importance of understanding the process of goal setting in the local government organization from the auditing perspective. This applies both to performance measurement and auditing of local government activities and to the use of audit results in improving the performance of local authorities. Thus, seemingly decoupled structures in uncertainty and ambiguous contingencies should not be judged exclusively as static decoupled and symbolic phenomena but rather be studied from a dynamic, evolutionary, and political perspective (Nelson and Winter, 1982; Baier et al., 1986).



Secondly, performance auditing in local government organizations in its modern form may still be relatively new. Over time one may expect more loosely coupled but still highly rational use of performance auditing information. This means that due to the institutional context under which different users employ performance audits, different users may use this kind of information rationally according to their special circumstances. For example, in the political ruling coalition, the majority could select and disclose performance information when and if it is performance auditing in local government organization, Finland and Norway 595 confirm value for money. Simultaneously, the political oppositions, the minority, and the media could select and use information strategically when and if information shows a low value for money. Both of these users are rational and use the information externally which is coupled to structures internally in the

local government organizations (Municipalities). While such processes may increase the level of conflict and reveal different ideologies, this could be exactly what management models in political institutions should do, intended or unintended (Brunsson, 1989). However, if it is so that performance auditing in the local government could work in such a rational and coupled way as it has depicted above, this in the long run may lead to a possible performance auditing paradox.

The logic behind the performance audit success paradox is that even though performance auditors could be a relatively successful agent for society at large as a principal in providing performance information as a collective good and thus function as a watchdog for democracy and transparency, the society is not a homogenous entity.

The citizens have different preferences and different political parties and interest groups have different manifestos and agendas. Even within the local government organizations, different policy areas and organizational levels may have different goals and strategies. Thus, if the ruling coalition responsible for providing and enhancing performance audits persistently experiences that this information is also used as political ammunition against itself, this may increase the pressure for decoupling, more symbolic use of performance audits, or even reduce the demand over time from the ruling coalition for performance audits, which has been labeled as a possible success paradox. If this is the case, this could be at least a partial explanation for the increase in performance measurement (Hood, 1991, 1995) and the audit and evaluation explosion (Power, 1997) evident as part of the new public management reforms in the 1980s and 1990s. After all, performance audits in political organizations are devices for informing preferences (March 1987) and (rational) political instruments (Feldman and March 1981) for different stakeholders. The purpose of this study is to explore and describe the common and qualified perceptions of the efficiency of performance auditing in local government organizations. Albeit this study has given some hitherto



missing information in that respect, a possible limitation of this study is that it may have been more explorative than descriptive. The reason for this potential limitation is the ill-performance auditing concepts, the present scarcity of published studies regarding performance auditing in the local government organization context, and the subsequent choice of an explorative rather than descriptive research design for this study. Furthermore, politicians are not included as stakeholder informants. When it comes to the implications for future research this study has given room for some suggestions. The suggestion for future research is to conduct more comparative, descriptive studies of performance auditing in the local government organization. Specifically, politicians should be included as informants and countries should be selected to achieve 596 The European Accounting Review variability on dimensions such as decentralization, administrative culture, and the trajectory of output-oriented management reforms. Furthermore, the number of and selection of cases should be designed to facilitate the generalization of results.

### **2.5.2 Public Sector Auditing, Financial Accountability at the Local Government Organizations**

Accountability and transparency in the management of public sector resources are powerful tools for preventing and discovering fraud and corruption in service delivery. To put this system in place accountability is inevitable in the organization and staffing of local resources administration together with effective auditing and good budgetary procedures. It is hoped that the public can further extend its roles to enhancing public financial accountability apart from assessing conformity to guidelines. It is time for public sector auditing to put much emphasis on value-for-money audits (performance audits). This type of audit can enable the public sector to focus on inputs and outputs which advocate economy, efficiency, and effectiveness in the utilization of public resources for the provision of public social services and also for the betterment of social welfare. Also, the study unveils the main challenges of public sector auditing in Tanzania which in one way or the other might interfere with fulfilling auditing responsibilities such as independence,



resources, and its mandate. Public sector audit is very crucial in the whole mechanism for safeguarding public resources to ensure proper provision of social services to the citizens, however, these challenges can hinder National Audit Office of Tanzania (NAOT) from fulfilling its responsibilities of serving the general public. The main challenge observed concerning with Controller and Auditor General (CAG) office is its autonomy and mandate.

### **2.6.2 Auditing Practices and Organization Efficiency in the Local Government Organizations**

The main finding of this paper was that efficient, effective, and transparent Local Government Agencies (LGAs) cannot be achieved unless internal actors play their roles properly. Several reforms and regulations had been introduced to ensure that LGAs perform well. However, it was found that executives and other internal officials become hurdles to positive changes toward effective LGAs. Personal and other interests made the executives use collusion and manipulation strategies to fulfill their interests. The end product of the collusion and manipulative strategy was low productivity and underperformance in the LGAs.

It was further noticed that the hunger for effective LGAs made LGAs' stakeholders tireless in continuing to introduce new reforms and measures such as developing powers to lower Local governments and the introduction of an Internal Audit Committee (IAC) to oversee public sector internal auditors, to ensure that internal auditors perform towards building an effective organization.

In addition, this research showed that LGAs actors had different powers and influence over executives' actions. As a result, executives accorded priorities to recommendations and directions given by a certain group of stakeholders and ignored others. This is an important finding as the literature has shown that each group of stakeholders to some extent contributes towards the achievement of organizational objectives. Therefore, this paper calls for LGAs executives to play

what could be called a fair game with all stakeholders and that no stakeholder should be marginalized and ignored to achieve organizational efficiency.

This research contributes to the existing debate posed by Power (1994) about whether audit can deliver what it promised in a form of accountability, efficiency, or quality or whether it fuels the problems... Empirical studies of audit and accountability have generated mixed results. For example, while Ng (2002) and Gasper (2006) saw audit as important for bringing accountability, Nyman et al. (2005) and Salawu and Abgeja (2007) argued that neither accounting systems nor better auditing methods will make it easier to determine accountability. This study shows that neither internal audit nor external audit can bring efficiency to an organization unless backed by powerful and influential stakeholders.

Also, the research provides practical evidence of how auditing can be used as an instrument to foster organizational efficiency. From the substantive theory, it was observed that auditing has a strategic role to play in the achievement of organizational efficiency. For example, the research showed that audit increased the interaction among actors through the use of participatory audit and the use of audit reports by various stakeholders. It was also revealed that in Local Government Agencies (LGAs), auditing was found to be a catalyst for several measures and reforms including the appointment of an Internal audit General in Tanzania.

Furthermore, the research showed that internal audit has a huge potential for enhancing organizational efficiency. The literature revealed that internal audit apart from being seen as an effective tool for internal accountability can also be exploited for external accountability and issues of transparency and the opportunity to hold senior management staff into account (Schwartz & Sulitzeau-Kenan 2002). The substantive theory suggested that despite being marginalized an effective internal audit function can ease external audit work. The importance of internal audit was

also revealed in the research when the government of Tanzania the bold decision to appoint an IAG to oversee the overall affairs of the public sector internal auditors to increase the effectiveness of internal audit functions as an overseeing body.

In addition, the literature showed that managers think about stakeholders based on their perception after assessing which stakeholders are silent (Mitchell, 1997, Donaldson & Preston, 1995). This research revealed that managers' perceptions of which stakeholders to pay more attention to did not depend on stakeholders' silence alone, but also the nature of the task environment also played a big role in who counted. For example, the substantive grounded theory in this research showed that, despite councilors having all the attributes, environmental factors made managers pay less attention to this group.

Lastly, when proposing their stakeholder-agency theory, Hill and Jones (1992) saw managers as being the only group of stakeholders who enter into a contractual relationship with all other stakeholders, and who have direct control over the decision-making apparatus of the organization. This research adds evidence to existing literature that unless becomes more efficient, an effective organization cannot be achieved.

### **Knowledge Gap**

The various conclusions as cited by various research identifies the need for performance audit in public sector organizations. They advocate that for accountability and transparency to prevail among various public organizations, there is the need to emphasize on performance audit to the neglect of the compliance audit, effective and efficient controls, and enhancing the independence of auditors in the local government organizations.

These conclusions by the various research works cannot be relied on to obtain complete transparency and effective and efficient audit system in public sector organizations.

The research work also seeks to find out the level of compliance by various government organizations in the country to Audit laws and regulations of the country and the ways by which they can be enhanced. The effectiveness and efficiency of internal controls are also a prerequisite for issuing credible assurance. This work seeks to determine the level of efficiency and reliance on internal controls to deliver accurate information needed to facilitate the external auditor's work.

### **2.6.3 Overview of Auditing**

#### **The Auditing Practice**

False material representations in any form are tantamount to fraud and misleading for users of the accounting information presented. The progress and the well-being of an organization are of great concern to individuals with a vested interest in the affairs of the organization toward the prospect of a sense of public ownership (Jill & Houmes, 2014). Across the length and breadth of the African and South American continent, Public sector Financial Auditing is a major mechanism for fighting mitigating white color crime associated with fraud which led to the introduction of several audit agencies established by an act of parliament to bring sanity across the country's political landscape (Wang, Xie & Zhu, 2015). The situation in Ghana is not different as the nation is witnessing a significant commitment from the Ghana Audit Service Agency as it continues the fight to maintain and promote independence though the indications are not positive (Cofie, 2016). A discussion that has taken the center stage for decades among leading journals and literature seems to suggest that achieving absolute independence so far as external auditing is concerned is almost a mission impossible, drawing from the judgment passed by some leading authors cast doubts about whether the external auditors can ever be independent of their client who bears the cost of their service and

negotiate for favorable conditions leading to their appointment as audit partners (Akotia, 2016). Considering the assertion above this paper seeks to suggest that the involvement of the auditing practice in fighting against fraud and material misstatement in public sector organizations in recent times warrants a critical observation in research. Additionally, the source of inspiration behind this study is the desire to advocate for transparency and accountability across the public sector organizations in the country and justice for all irrespective of whether the happenings are within the public sector or not. Based on a collection of thoughts regarding the above subject matter, one statement that strikes a sharp justification on the scholars indicated that overrating the professionalism and independence of the auditor is a crucial call because a possible misstatement will result in a total distortion of the entire financial system and equally disorganize the financial market (Kunz et al., 2014) not only that the statement further mentioned that when auditing fails, the whole system fails due to over-reliance on the auditors for validated report for investment decisions.

Relating the above debate as a real discipline, a standard definition of auditing states that involves a systematic procedure involving objectively gathering and evaluating recorded evidence on the economic and financial activities for observation of relevance and manner of reporting and interpreting the information to users according to a laid down modality (Salifu & Mahama, 2015). A diverse view of the discipline describes it as the art of attestation to some past events for future actions and planning processes (Osei, 2016). Following the above statement, auditing starts after the financial commitment has taken place in the form of appropriation in the case of public sector organizations whether due diligence is applied or data is falsified (Agyei-Mensah, 2016). This raised several questions such as whether the auditor on ethical grounds will expose wrongdoing during evidence gathering.

Meanwhile, the questions above could be answered by apportioning financial control responsibilities according to;

- i) Management is charged with duties such as managing and implementing strategies for the day-to-day administration.
- ii) Safeguarding resources and ensuring judicious use of the assets in their custody and,
- iii) Rendering accounts for the utilization of those resources and the overall performance of a particular period as detailed by (Basu, 2016).

The next stage is to present the records of economic events to third parties who have either invested resources in the running of the organization or are prospective stakeholders relying on such records to take decisions that will impact the prospects of the organization in the long run (Corten, Steijvers, & Lybaert, 2017). The auditor, in accordance with the Generally Acceptable Accounting Principles (GAAP), will then apply his expertise to arrive at an objective view of the facts and figures purported to reflect a fair and transparent statement devoid of errors (Lenz, & Hahn, 2015). Despite the establishment of legal frameworks guiding the practice in Ghana, the mysteries most scholars entertain seem to cast doubt in the minds of many as to whether the presence of the external auditor is just a mere formality or they are there to protect the public interest (Salifu & Mahama, 2015). Similarly, the public would want to know the extent to which public sector auditors are free from the influence of their clients who also happen to be another government organization. From the theoretical perspective whether the auditor display integrity or not, two fundamental requirements that must be met to qualify any audit opinion objective type are (1) the auditor must possess high expertise in the field to diagnose highly complex accounting data to uncover errors and, (2) the extent to the auditor is independent of management, the board and any political influence, once these conditions are met the public and stakeholders who vested interest in

the organization can confidently base their economic decisions on the evidence embodied in the financial statement of the organization (Cheng, Chang, Choy & Choy, 2016). The corporate environment literatures suggest that auditing is all about evidence to demonstrate beyond every doubt that the organization's systems of booking keeping are not contrary to the accounting customs, likewise, the systems, methods, and procedures for reporting to a large extent (Herron & Crawford, 2016). Many are those who registered their displeasure regarding the neutrality but this time it bothers on the aspect of the oath of secrecy and non-disclosure of a certain amount of vital information to third parties which may cause severe damage to their clients (Asante Asare, 2016). For the sake of clarity and insight from Barton and Bruder, (2014) stipulated that the external auditor is under a serious obligation to furnish various groups with an unbiased opinion on the institution's financial position, among those groups are; statutory regulation agencies, current and future shareholders, donor partners, creditors, suppliers, labor unions, academic institutions, scholars among others who in diverse ways rely heavily on the auditor's report. If the above scenario holds, it could imply that the auditor's work goes beyond the generally accepted customs of accounting to determine whether the methods used are suitable and best describe the current business and accounting principles since the external auditor is mandated to review any obsolete accounting practices and not just check for accuracy, fraud, and errors (Jill & Houmes, 2014). Any audit report that lacks certain merits is referred to as an unqualified audit report since the report is meant for reasons such as to improve the corporate governance style, strengthen the internal control systems, safeguard the confidence and independence of the auditor and promote accountability among other things (Dawuda et al., 2015).

The above statement gained its originality from the Sarbanes-Oxley Act of 2002 with a famous provision that sought to direct the Chief Finance Officer to get their financial statement assessed publicly to establish the quality of accounting records and internal control systems (Chang et al.,



2016). The Sarbanes-Oxley Act of 2002 has since given birth to several guidelines purported to strengthen the independent position of the auditor such as (1) the Audit Committee possesses certain powers to hire and fire external auditors at any given time if their performance falls below average (2) Personnel of the audit agency must go through a mandatory rotation on a particular engagement within five (5) years (3) One audit firm is permitted to render consultancy services to and on behalf of another auditing firm and (4) The audit committee of every organization has an oversight responsibility to ensure and guarantee the independence of the auditor devoid of conflict of interest and bias (Knechel & Salterio, 2016). Ge, Koester, and McVay (2017) took a different view and stressed the fact that, although most public institutions apply these guidelines, it is often said that the auditor's scope of engagement does not warrant them to strictly abide by the guidelines. These resulted in a crucial argument among major authorities and raised discussions in literature resulting in the creation of the Public Company Oversight Board (PCAOB) in the united states of America in the early 2000s after stakeholders identified lapses associated with the Sarbanes-Oxley Act 2002 which granted the board full responsibility to ensure public auditors apply ethical standards and professionalism but failed to prescribe penalties for negligence on the part of the audit committee (Nana Yaw Simpson, 2014). The above implies that the presence of an audit in every organization whether public or private is to provide reasonable assurance to the stakeholders. Questions have been raised regarding the degree of assurance however, according to Robbin & Mayer (2016), Special Committee on Assurance service defines assurance as; an independent practice of offering professional service to enhance the growth and quality of financial information for a policy decision. Meanwhile, Foster et al. (2016), argue that assurance as a concept in auditing encompasses a variety of activities on the part of the auditor such as the supply of reliable information on financial statements based on the traditional format or reporting on a step-by-step account from the basic processes involved in recording transactions to drawing to final



account for clarity if they are to be exonerated of any wrongdoing. This relates to Martin, Sanders, and Scalan (2014), who asserted that the concept of assurance is meant to give a clear overview of the firms' systems and procedures to concerned stakeholders to create room for improvement to current performance and final reporting submitted for attestation by several independent bodies to provide independence. It is not wrong to say that literature has over-emphasized fraud prevention neglecting the aspect of their independence which could also be a remedy for maintaining probity, and accountability in public organizations thereby bringing sanity into the handling of state resources (Porter, Simon, & Hatherly, 2014), therefore it is time literature advocate for modalities to promote absolute independence for the auditor since stakeholders are well aware of most of the indicators prompting opportunities to perpetrate fraud. For instance, it's common knowledge that fraud is likely to increase when; (i) Management engages in high expenditure transactions getting to the end of the year and poor classification of accounts among others (Thibodeau & Freier, 2014). These warrant a collective effort by all to support the Audit Service of Ghana to collaborate with other related accountability and law enforcement institutions established to promote good governance and transparency which is a major threat to achieving good governance and accountability in the public organizations in Ghana. A collective decision to advocate for the external auditor's independence is likely to result in some degree of assurance from the auditor according to custodians of internal control systems, The Committee of Sponsoring Organizations of the Treadway Commission (Blair, 2016). Ideally, the presence of external auditors must satisfy the following among others;

- i. For internal control purposes.
- ii. Assessment of risk.
- iii. Operational quality remarks are basically non-financial in nature.

- iv. Assurance based on the financial position and accounting purposes.
- v. Non-political influence over the final auditor's opinion.
- vi. Negative public perception auditing in Ghana.

#### **2.6.4 The independence of the Public Auditor**

Acting according to a set of ethical principles that seeks to uphold integrity and full compliance to objectivity in any auditing activity is termed as being independent (Osei, 2016). This is not quite different from section (584) article 187(10) of the Audit service Act 2000 describing independence as a fundamental principle underpinning every audit engagement with strict adherence to professionalism, skepticism, and the ability to discharge auditing functions without fear and favor (Agyei-Mensah, 2016). When the external auditor is often referred to as an independent auditor, it's due to the vital role they play and the importance attached to the profession by all standards highlighting the reliable true, and fair deal they offer to stakeholders (Salifu & Mahama, 2015). According to the Committee of Sponsoring Organizations of Treadway Commission (COSO), for an auditor to deliver an objective opinion in the capacity of a magistrate or liken to a referee, the internal control systems of the organization receiving the consultancy service must be robust and sound enough to position the auditor in an independent position such that the five integrated internal control elements developed by COSO must be in full force to detect any possible system lapses intended to compromise the process (Blair, 2016). Mapping the above theoretical perspective to the context of Ghana, Aseidu and Deffor (2017), justified a broader view of the subject focusing on the audit expectation gap between the Audit Service and the public. In this view, a collaborative effort from various institutions is required to achieve this landmark. Section (584) of the Audit Service Act 2000 in consonance with Article 187(10) and sub-section (3) of the constitutional instrument outlined a provision declaring the independence of the auditor (Akotia,

2016). The provision among others stated the various elements qualifying the external auditor in an independent fashion. Section (584) states that;

- (a) The auditor shall not under any circumstance be subject to a person or any law that is inconsistent with the provision of this article in the performance of their duty
- (b) The auditor in the course of duty may disapprove such transactions that are deemed contrary to the Audit Act and Financial Administrative Law and apply appropriate sanctions where necessary.
- (c) The auditor is at liberty to disallow any expenditure not duly captured in the account and properly directed to the one who ought to receive it.
- (d) The auditor is under oath of secrecy and must discharge duties prescribed by this Act with the utmost confidentiality.

From a practical perspective, it's challenging if efforts are not channeled towards drawing experts with different industrial backgrounds and experience to assemble into a formidable team to redeem the public sector organizations from the claws of fraud. Research has made a general knowledge that accounting and auditing have played a pivotal role in the governance system of Ghana and have come to stay with us (Earley et al., 2016). Auditing has a tool that has been a management strategy in Ghana to provide support and confidence and ensure that the system works towards desired goals. However, the independence of the auditor is not fully guaranteed throughout their operation to help the government identify any blind spots (Tackie, Marfo-Yiadom & Achina, 2016). The word independence in this context can be likened to an insurance policy against a group think as well as a tunnel vision for continuity and growth (Basu, 2016). If the systems of internal control of an organization are in full operation, business failures such as Enron, WorldCom, and HealthSouth would have been averted, but due to the weakness in the internal control structure, top

management circumvented the activities of the organization (Corten et al., 2017). According to the Audit service Act 2003, the term independence is classified under two scenarios; independent of the mind and independence in appearance. The auditor is said to be independent of the mind when a decision about a set of evidence at hand is done without bias and personal belief and undue pressure from the client (Jill & Houmes, 2014). The above does not guarantee independence until proved beyond all doubt that the independence of the mind is translated into independence in appearance embodying the fact that the auditor convincingly is acting professionally without compromise (Hayes, Wallage, & Gortemaker, 2014). One of the schools of thought believes that lapses in public departments in the 21<sup>st</sup> century are due to the drift from the auditing original function in the 1940s which focused mainly on fraud detection, however, between 1990 and to date there is an overreliance on achieving management objectives and financial goals at the expense of integrity and independence of the auditor (Porter et al., 2014).

### **Audit Expectation Gap in Ghana**

The auditing profession suffered a major setback in establishing assurance in discharging of their duties as a result of potential falsification of facts, deliberate omission, and distortion of financial information, and provision of an unrealizable statement of affairs to perpetuate fraud and embezzlement of resources meant for the ministry of health (Ianniello, 2015). This condition has further widened the expectation gap between the external audit functions and the financial report users, the stakeholders in the public sector of Ghana. The audit expectation gap refers to the disparities between the work of the assurance providers and the users of the financial information (Dawuda et al., 2015). In most cases, the difference or the gap occurs when there are varied views over the fact embodied in the opinion provided by the audit process lose its credibility and value in the eyes of the stakeholders (Barton & Bruder, 2014). Section 40-41 of the Financial

Administrative Decree 1979(SMCD 221) mandates the Auditor-General to have access to all public accounts prepared by the Controller and Accountant-General for a thorough examination to establish an opinion of the fairness accounting treatments (Knechel & Salterio, 2016). The media in Ghana often chastised the public for making unrealistic demands on the auditors, citing unsatisfactory works when it comes to serving the interest of the public when in an independent fashion due to increasing public expenditure by the state leading to what is termed as the audit expectation gap describing possible parities between public perception about the auditor's performance with regards to their objective and independent approach to duty, therefore, warranting high level of assurance listed below by Knechel & Salterio (2016):

1. The auditor is mandated to provide complete assurance on the nature of the accounting information being reported by management and bear responsibility for the loss in case the information is falsified or misleading.
2. The auditor must endeavor to guarantee the future prospect and viability of the entity in the long run.
3. Audited reports and opinions of the firm's performance must be as complete as possible and devoid of errors
4. The auditors are obliged to detect fraud and irregularities without excuses to justify any negligence.
5. The auditors are charged to trace the route of every transaction to establish their opinion on the statement of affairs.

Arguments by leading policymakers before the 1940s disclosed that the audit profession focused primarily on fraud detection, however, the practice was extended to cater to accounting and financial statement verification during the latter part of the 1950's up until recent times with more

robust systems and technologies (Liao, Lin, & Zhang, 2016). In this regard, if government organizations must perform efficiently with the support of the public, it will be prudent to improve the trust and relationship between the citizens and the government. Meanwhile, an alternative is to subject public sector organizations' performance to rigorous assessment and scrutiny by opinion leaders and citizens by way of enforcing democracy in managing state resources for efficiency (Bahrawe, Heron, & Hasan, 2016). A more authoritative voice when it comes to governance system and public sector reforms suggested that an open channel of communication involving the external auditor and experts such as, legal advisors and state attorneys can check the actions of the external auditors to determine any ill-conceived tendencies to compromise their office at the expense of the public interest (Akotia, 2016). It is for this reason stakeholders are advocating for auditors to be stripped off all immunities and be held entirely accountable for any wrongdoing as far as public accountability is concerned.

### **Factors Responsible for Auditor's Independence**

After a thorough consultation with the literature, the key elements outlined to fit the Ghanaian context and current dispensation include a set of suitable independent agents capable of influencing the public sector auditor's actions in either direction considering the complexity and ambiguous nature of the dependent variable which happens to be the major determinant to achieving integrated corporate governance (Basu, 2016).

1. Competence
2. Public Scrutiny
3. A Robust internal audit
4. Efficient Board

## **Competence**

The fundamental principles of professional ethics prescribe a set of rules capable of securing the independent mindset and the acceptable behavior characteristics of the auditor (Kunz et al., 2014). As it is enshrined in the constitution of the Republic of Ghana, establishing the Audit-General Service Act 2000 and the Financial Administration Act 1979, members of the audit service who are the assurance providers and representatives of the Auditor-General owe the people of Ghana due care, integrity, objectivity, confidentiality, and application of professional competence and expertise in discharging their mandate (Barton & Bruder, 2014). By implication, they are deemed vested in the laws plus long-standing professional training, well equipped and highly skilled with technical abilities to have command over their duties to contribute at full efficiency (Corten et al., 2017). A group of management experts defined an independent auditor as one who is certified and licensed by a professional accounting and auditing body with long-standing experience in the field (Salifu & Mahama, 2015), suggesting that such experts possess outstanding qualities and competence to withstand any external influence other than assuring the public.

## **Public Scrutiny**

In several jurisdictions including Ghana, public office holders are often subject to open cross-examination by the citizens in demand for accountability on the use of the taxpayer's money (Nana Yaw Simpson, 2014). Such actions often come from senior citizens, workers' unions, pressure groups, scholars, and educationists who seek clarification to ensure that auditors' functions are properly configured within the confines of the law that defines their roles and the extent to which they are to exercise their authority. Within the context of Ghana, classical cases that are often financial in nature are often left for discussion in the media landscape to seek public opinion and input from the general public on how to shape such sensitive information that is of public interest



(Ofoegbu, 2014). In most cases, this responsibility is often carried out by the accounts committee of parliament and also opened to the general public and opinion leaders to witness parliamentary committees demand accountability from public officials in charge of various government departments (Anvuur, Kumaraswamy, & Male, 2006). This is equally a good platform to offer constructive criticism and offer healthy counseling to the public auditors if done consistently from time to time as a reminder of their patriotic duties. Ensuring independence for the auditor does not only mean finding fault but negotiating for better conditions of service and suitable remunerations corresponding to an overwhelming contribution to good governance (Salifu & Mahama, 2015).

### **Robust Internal Audit Unit**

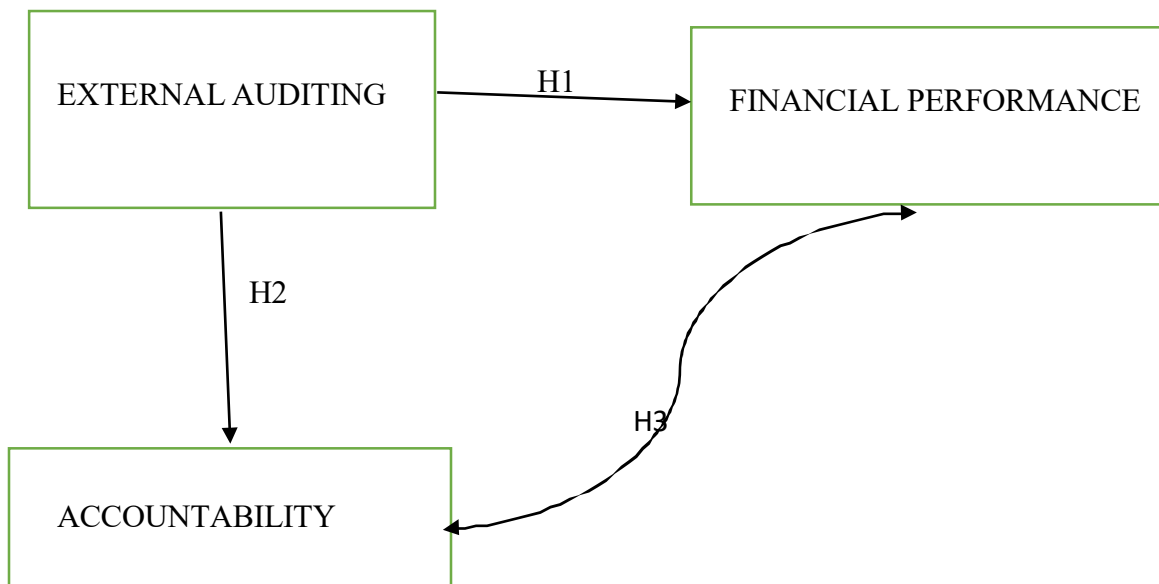
The Institute of Internal Auditors-Global acknowledges that the success of the external auditor's work is largely dependent on the outstanding performance of the internal audit staff who on daily basis offer tangible contributions to the system of controls (Tricker & Tricker, 2015). In most jurisdictions they are considered part of management and the majority of them form part of the audit committee who by implication is not entirely independent of the organization but are agents of control per the assertions by Breninmeijer et al. (2017), moreover, the work of the internal audit unit cannot be overemphasized when it comes to ensuring due process and enforcing fairness and evidence audit. From a practical point of view, an internal audit lays a perfect foundation for the external auditor which by implication warrants technical competence, objectivity, and ethical standards (Jill & Houmes, 2014). Consequently, a weak and porous internal audit unit will serve as a breeding ground for compromising the external auditor.



## **Efficient Board**

An efficient board is mandated to enforce such provisions as prescribed under section 301 of the Sarbanes-Oxley Act 2002, directing the audit committee of which members are qualified to serve on the board to exercise an oversight responsibility in facilitating the independent environment of the auditor (Toy & Hay, 2014). Including such mandate are the responsibilities to be directly in charge of appointing and negotiating remuneration packages and determining the conditions of service for the auditor throughout the period of engagement with the client organization (Fung, 2014). The board which is also a sub-unit of the audit committee is charged with the responsibility to adequately monitor, evaluate and appraise the auditor from time to time bearing in mind the power to fire or replace any audit partner performing below standards or where there is sufficient evidence to prove that the auditor's position is being compromised (Porter et al., 2014). The board is a bit to ensure reviewing the prevailing conditions and terms of engagement when it deems fit (Corten et al., 2017). The Board and the Audit Committee can only perform these functions when they are abreast technically and professionally in-depth enough to criticize.

## 2.7 Conceptual Framework



### Hypothesis

H1: Does external auditing affect the financial performance of the municipal assemblies in Ghana?

H1b: External audit will have a significant effect on the financial performance of the municipal assembly's

H2: Does external auditing have any effect on the accountability of the municipal assemblies in Ghana?

H2b: External auditing has a significant effect on the accountability of the municipal assemblies

H3: Do financial performance and accountability have any relationship?

H3b: Financial performance and accountability have a positive relationship

## **2.8 The Scope and Concepts of External Auditing**

The scope and limitations of external audit in detecting frauds in a company's operations aim at investigating what are the capabilities and limits of external audit in detecting frauds in companies operating in the territory of a public and private organization.



## **CHAPTER THREE**

### **METHODOLOGY**

#### **3.1 Introduction**

This chapter discusses the study design, the population for the study, the sample, and the sampling technique used to in the study. It also states the research instrument used, the data collection procedure used, and the data measurement. Finally, the chapter concludes with data analysis.

#### **3.2 Research Design**

This study is a case that assess the effectiveness of external audits on the financial performance and accountability of the Effutu Municipal Assembly in the Central Region of Ghana. The research design adopted was descriptive statistics because the researcher wants to understand how the work of the external auditors is affecting the general performance of the municipality.

The study used questionnaires as a quantitative tool to gather data for the study. Miles and Huberman (1994), indicated that quantitative research involves primary understanding in terms of measurement of quantity, intensity, or frequency. It is about asking people for their opinions in a structured way so that one can produce hard facts and statistics to guide you. To get reliable statistical results, it is important to survey people in fairly large numbers and make sure they are a representative sample of the target. This is the rationale for the researcher's decision to use quantitative methods to better comprehend the topic at hand, evaluating how an external audit will affect the financial accountability and transparency of the Effutu Municipality.

#### **3.3 Study Population**

The Effutu Municipal Assembly comprises various departments with a total staff population of 140. Due to the difficulty of being able to talk to all the 140 staff members, the researcher is obliged to minimize its study area by focusing on the finance, budget unit, procurement unit, stores,

information, and internal audit unit of the Municipal assembly, which is expected to be used as the representative of the total staff population. The total number of staff of the targeted office is 70. Of which 50 respondents will participate in the study. They include management members namely the Municipal finance officer, Municipal chief Accountant, Municipal Internal Auditor, Municipal Budget officer, Assistant Budget officer, Municipal Procurement officer, supply officer, and Revenue Superintendent. All heads of departments will also take part in answering the questionnaires and other randomly selected staff across the various department will be added to make up the total number of 50 respondents representing the total staff population in answering the questionnaires.

### 3.4 Sampling Technique

This study primarily focuses on the top management of the aforementioned offices and individuals. Therefore, the researcher will choose interview subjects using purposive sampling strategies. As a result, only those with relevant information will be sampled. purposive sampling signifies that one sees sampling as a series of strategic choices about, with, whom, where, and how one does research. Purposive sampling is virtually synonymous with qualitative research, Palys, (2008).

### 3.5 Sampling Size

The formula used to obtain the sample size was  $S = \frac{n}{N} \times 100\%$

Where 'S' represents the sample size, 'n' represents the total number of staff at the selected offices and 'N' represents the total number of staff at Effutu Municipal Assembly. The sample of the study was obtained by;

$$\begin{aligned} S &= \frac{n}{N} \times 100\% \\ &= \frac{70}{140} \times 100\% \\ &= 50 \end{aligned}$$

### 3.6 Data Collection Instrument

The primary data will be collected through questionnaires. The questionnaires would be distributed to management, the internal auditors, and other staff of Effutu Municipal Assembly. The questionnaire for the management dealt with the effectiveness of the internal audit process, operation, their support for external auditors, and the effectiveness of external audit and the various processes they deploy to enhance the independence of the external and internal auditors. While the questionnaires for the internal auditors were about their independence, the various processes through which they improve the internal controls of the assembly, and to what degree their work can be relied upon by the external auditors. The general staff selected were also asked about their knowledge of the work of the external and the internal auditors and to what extent they rely on their findings. The questionnaires were adopted and modified from the prior author and literature review (Mihret & Yismaw, 2007; Cohen & Sayag, 2010; Arena & Azzone, 2009) an approach which is recommended in methodology literature for studies of this nature (Bryman & Bell, 2007) and those questionnaires are prepared in the form of Likert-Scale type (showing respondent agreement and disagreement) by constructing into point scale where the lowest scale represents strongly disagree and the highest scale point represent strongly agree (Likert, 1932). The questionnaires distributed to the respondent are organized into two parts the first part comprises the demographic questions of the respondents, and the second part comprises items relating to the effectiveness of external and internal audits and their determinants. Each respondent will be given three days to answer the questionnaires which will be collected and compiled.

### **3.7 Data Analysis**

The researcher would use both quantitative and qualitative techniques to analyze the data. The data that would be obtained from the field would be analyzed using frequencies and percentages, as well as inferential statistics. Statistical Package for the Social Sciences (SPSS) version 17.0 will be employed for data analysis. The use of this version is because there will be the need for data reduction through factor analysis, regression, and correlation analysis. Percentages would be used to determine sample distribution across various demographic variables while mean scores of the variables. The standard deviation would also be used in the analysis. Frequency distribution tables and pie charts would be used to present the data.

### **3.8 Ethical consideration**

Ethical consideration will be taken into consideration by first seeking authorization from the top management of Effutu Municipal Assembly where the study expects to be carried out. The researcher will also ensure that questionnaires are structured in such a way that there is no mention of the interviewee's name. A statement as to the strict confidentiality with which data will be held will be expressly stated in the questionnaire. Ethical consideration will again take care of by the researcher briefing the respondents as to the purpose of the research, their relevance in the research process, and expectations from them.

## CHAPTER FOUR

### PRESENTATION, ANALYSIS, AND INTERPRETATION OF DATA

#### 4.1 Introduction

This chapter deals with the presentation of the results relating to the study variables. It analyzed the general characteristics of the sample studied and also answers the research questions. In other words, it deals with four major issues, namely characteristics of the sample, the impact of external audit on the Municipal Assembly of Ghana in the light of financial accountability and transparency in Ghana by focusing on Effutu Municipal Assembly, Challenges that hinder the accomplishment of external audit of the Municipal Assembly's.

Out of the 70 staff from the targeted offices in the Municipal Assembly, the researcher managed to get 50 respondents thereby representing a response rate of 71.45%, which is good for any standard.

The composition of respondents was, fifty (50) questionnaires were distributed to the selected staff of the Effutu Municipal Assembly and all questionnaires were completed and returned representing 100% of the distributed questionnaire

#### SECTION A: BACKGROUND OF THE RESPONDENTS

This section shows the background of the respondents, according to Gender, Age, Marital status, Level of Education, Religion, Work experience, and Job position which have some level of influence on the results and discussions of the information obtained from the staff of the Effutu Municipal Assembly.



**Table 4.1 Distribution of Respondents by Gender**

Gender	Frequency	Percent (%)
Male	32	64.0
Female	18	36.0
Total	50	100.0

**Source: Field Survey (2022)**

Table 4.1 illustrates that out of the total of 50 respondents, males had the highest 30 respondents representing 64% of the total, and the female respondents 18 representing 36%. This was because the male figure was more than their female counterparts.

**Table 4.2: Distribution of Respondents According to Age**

Age	Frequency	Percent (%)
18-30	16	32.0
31-40	26	52.0
41-50	8	16.0
Total	50	100.0

**Source: Field Survey (2022)**

Table 4.2 illustrates that the highest percentage of respondents (52%) were aged between 31-40 years which represents 26 respondents, followed by (32%) representing age 18-30 years which also represents 16 respondents and the least number of respondents (16%) were between the ages of 41-50 years who were also 8 in number.

**Table 4.3: Distribution of Respondents According to Marital Status**

Marital Status	Frequency	Percent (%)
Single	18	36.0
Married	32	64.0
Total	50	100.0

**Source: Field Survey (2022)**

Table 4.3 illustrates that the highest percentage of respondents (64%) were married representing 32 of the total respondents and 18 of them were also single representing 36% of the total percentage.

**Table 4.4: Distribution of Respondents According to Religion**

Religion	Frequency	Percent (%)
Christianity	42	84.0
Islamic	8	16.0
Total	50	100.0

**Source: Field Survey (2022)**

Table 4.4 also illustrates that out of the total number of respondents (50), 42 representing 84% of the total percentage were Christian and 8 representing 16% were also Muslims.

**Table 4.5: Distribution of Respondents According to Level in Education**

Educational level	Frequency	Percent (%)
Degree	26	52.0
Masters	24	48.0
Total	50	100.0

**Source: Field Survey (2022)**

Table 4.5 illustrates the level of education of the respondents in their area of study, and out of the total number of respondents (50), 26 representing 52% were first Degree holders while the remaining 24 respondents were second-degree (master) holders representing 48% of the total percentage.

**Table 4.6: Distribution of Respondents According to Working Experience**

Work Experience	Frequency	Percent (%)
less than 3years	20	40.0
3-6years	22	44.0
7-10years	4	8.0
over 10years	4	8.0
Total	50	100.0

**Source: Field Survey (2022)**

Table 4.6 illustrates the level of working experience of the respondents, it could be clearly shown in the table that the majority of the respondents have worked with Municipal between 3-10 years that is 30 of them and the remaining 20 have been with the Municipal less than 3 years. the highest percentage of the respondents (22) representing 44% had been with the Municipal between 3-6

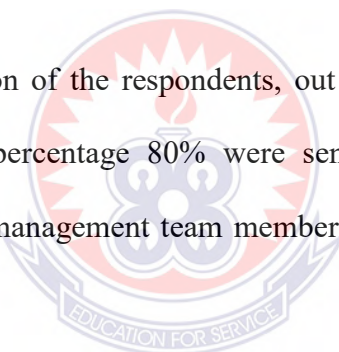
years, followed by 20 representing 40% has also been with the Municipal for less than 3 years, followed by 4 each for those who have been with Municipal 7-10 years and those who have been there above 10 years also representing 8% each respectively.

**Table 4.7: Distribution of Respondents According to Job Position**

Job Position	Frequency	Percent (%)
Management Team Member	10	20.0
Senior Staff	40	80.0
Total	50	100.0

**Source: Field Survey (2022)**

Table 4.7 illustrates the Job position of the respondents, out of the total number of respondents (50), 40 represented the highest percentage 80% were senior staff while the remaining 10 respondents represented 20% were management team members occupying managerial positions at the Municipal.



## **SECTION B: ANALYSIS OF MAIN RESULTS**

The first research objective the researcher wanted to find answers to was the effectiveness of the external audit and the audit procedures they outline in performing the audit at the Effutu Municipal Assembly. Table 4.8 of the study presents the findings of the responses obtained from the respondents relating to the Effectiveness of the Audit.

**Table 4.8: Effectiveness of External Audit**

Statements	SA	A	N	D	SD
	N (%)	N (%)	N (%)	N (%)	N (%)
The Auditors inform you at least annually about steps they take to ensure independence and objectivity	24 (48%)	26 (52%)	-	-	-
The auditors show an understanding of the organizational risks and issues that are considered important	34 (68%)	12 (24%)	4 (8%)	-	-
The Auditors are firm with their challenges to management where appropriate	28 (56%)	18 (36%)	4 (8%)	-	-
The auditors provide you with information to explain their internal quality control procedures where requested	32 (64%)	14 (28%)	4 (8%)	-	-
The auditors liaise effectively with internal audit functions	18(36%)	24(48%)	8(16%)	-	-

**Source: Field Survey (2022)**

Independence has no single interpretation and meaning across the people; hence it is subject to ambiguity and uncertainty (Wines, 2012). However, for the purpose of this study, independence refers to the concept of being free from management influence while an external auditor performs audit activities and issue report. (Ahmad & Taylor, 2009; Belay, 2007). Independence and objectivity are fundamental to Auditor's work and report. If reports are credible, it increases the number of investors in the organization. According to Cohen and Sayag (2010), auditors should be

sufficiently independent of those they are required to audit in order to conduct their work without any interference from them. Coupled with objectivity, independence contributes to the accuracy of the auditor's work and give investors the needed confidence that they can rely on the report given by the audit team and make crucial judgement and assertion from their report.

From the findings presented in table 4.8, it was evidenced that 24 of the respondents representing 48% Strongly agreed with the assertion that the external auditors inform the Municipal about the steps they take to ensure that their independence and objectivity are not compromised, while the remaining 26 representing 52% agreed to the assertion which shows that none of the respondents disagreed or strongly disagreed or were neutral to the assertion that the Auditors inform them before the audit. Auditor's independence is fundamental to public confidence in reporting and auditing process as well as the reliability of the auditor's report (Turley et al.,2011). In conformity with the responses from the study it clearly shows the auditors are ready not to compromise on their independence with all the respondents strongly agreeing or agreeing to the statement.

On the statement of auditors showing understanding of the organizational risk and issues that are considered important at the Municipal, 34 of the respondents representing 68% strongly agree, while 12 of the respondents representing 24 % also agree to the assertion and the remaining 4 respondents representing 8% were also neutral to that statement. None of the respondents either disagreed or strongly disagreed with the statement according to the findings.

The findings from the statement were in agreement with the International Standards on Auditing (ISA 315), which advocates that for auditors to effectively plan for the audit of the financial statement of an organization, the audit has to understand the organization and its environment by following the various laid down procedures of ISA 315. The findings of the study show that the

auditing team shows an understanding of the organizational risk and issues that are considered important at the Municipal before planning the audit.

Regarding the issues of whether the auditors are firm with their challenges to management where appropriate, the findings of the study showed that 28 of the respondents representing 56% strongly agreed to the statement, 18 representing 36% also agreed and 4 of them representing 8% were also neutral to the statement. None of the respondents again disagreed or strongly disagreed with the statement. The findings of the study illustrate that the auditors stay firm with their challenges to management where appropriate without any favouritism or compromise in carrying out their work. This assertion shows the reliability of the audit report since there is no interference from the management team.

The findings of the study also showed the extent to which the external auditors provide the organization with information to explain their internal quality control procedures where requested. It was evident from the findings that 32 representing 64% of the participants strongly agreed to that statement, 14 representing 28% also agreed and 4 representing 8% of the respondents were also neutral to the fact that the auditors provide an explanation to the organization on quality internal controls measures and procedures where requested. Here also, none of the respondents disagreed with the statement.

The study also wanted to know the auditors liaise effectively with internal audit functions in carrying out their audit work and the findings showed that 18 of the respondents that are 36% of the participants strongly agreed with the assertion, 24 representing 48% of the respondents also agreed to the statement and 8 representing 16% were also neutral and also none of the participants strongly disagreed or disagreed to the fact that auditors liaise effectively with internal audit functions in carrying out their audit work.

The researcher also sought to find out the extent of the qualities the auditors possess in delivering the audit work. Table 4.9 illustrates the response from the participants on the issues of quality delivery on the path of the external auditors in carrying out the audit.

**Table 4.9: Quality of Delivery**

Statements	SA	A	N	D	SD
	N (%)	N (%)	N (%)	N (%)	N (%)
The auditors have a constructive relationship with the management	20 (40%)	30 (60%)	-	-	-
The explanation of the audit plan, any deviation from it, and subsequent audit findings are clear and precise	20 (40%)	30 (60%)	-	-	-
The important accounting stance made by management, their impact on the financial statement, and the views of the auditors on their treatment are clearly explained	20 (40%)	30 (60%)	-	-	-
Identified issues are prudently dealt with without any room for surprises	26 (52%)	24 (48%)	-	-	-
The auditors have a constructive relationship with the audit committee	26 (52%)	16 (32%)	8 (16%)	-	-

**Source: Field Survey (2022)**

The table illustrates the finding from the study on the statement of the quality of delivery of the Audit work that the external auditors perform. The quality of delivery asked questions on the constructive relationship between managers and the external audit team, the explanations of the



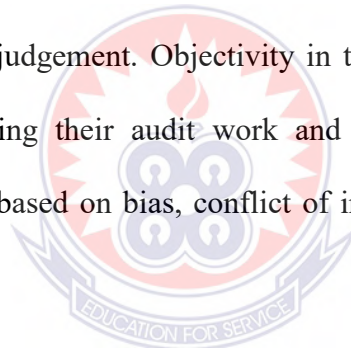
audit plan and procedures, the timely delivery of the audit work within the stipulated time and how to deal with deviation from the procedures.

With regards to the responses to the statement “the auditors have a constructive relationship with the management”, 20 of the respondents representing 40% strongly agreed to the fact that the external auditors and management have a sound relationship, 30 representing 60% agree to that statement, none of the respondents believed that there was no constructive relationship between management and the audit team. The findings, clearly show that management and the auditor have a good relationship but it does not influence the actions and the report of the auditors when it comes to their engagement with the organization.

On the issue of explanation of the audit plan, any deviations from those plans and subsequent audit findings being precise and to aid quality delivery of the audit engagement, 20 of the respondents representing 40% strongly agreed and 30 representing 60% also agreed to that statement. Again, none of the respondents had any doubt about the quality delivery of the audit engagement when it comes to giving any explanation.

The researcher also wanted to know the extent to which important accounting stances made by management, their impact on the financial statement, and the views of the auditors on their treatment are clearly explained, so the respondents were made to make their judgement on the statement. In response to that statement, 20 of the respondents representing 40% strongly agreed to the fact that the auditors give clearer explanations about the accounting stance made by management, and 30 of the respondents also representing 60% agreed to that assertion without any doubt. All 50 respondents either strongly agreed or agreed with the statement, so none of them disagreed with the fact.

On the issue of the external auditors being able to complete their audit work and issue their audit report within a stipulated time and prudently dealing with any identified issues without any room for surprises, the results gathered from the study showed that 26 of the respondents representing 52% strongly agreed to statement identified issues are well addressed by the audit team with giving any room for surprises while as 24 of the respondents representing 48% also agreed to that fact. There was no disagreement or neutral stands from the respondent on that statement indicating the external auditors are always available for addressing any issues about the audit engagement. The study conducted aimed at knowing how the auditors exercise their various codes of ethics as issued by the Institute of Chartered Accountants Ghana (ICAG) and approved by the International Federation of Accountants (IFAC). The study wanted to know the perceived level of objectivity that the auditors exercise in their judgement. Objectivity in this context means that the External auditors are impartial in conducting their audit work and they do not compromise on their profession or give any judgement based on bias, conflict of interest or undue influence from any third party or any other person.



Another question that the study answered was about the constructive relationship between the External auditors and the internal auditors and the audit committee members of the Effutu Municipal Assembly. A constructive relationship in this context is the relationship characterized by flexibility of role, the mutual concern of members and the external auditors as well as other factors. Here the researcher was emphasizing the cordial relationship between the audit committee members of the municipal and the external auditors. This question to some extent agreed with the legislation made by the Sarbanes-Oxley legislation of 2002, which requires that the audit committee must be a standing committee to the main board consisting primarily of none executive directors who can view the company's affairs in a detached and independent way and liaise effectively with the main board and the external auditors.

The response obtained from the respondents illustrated in table 4.8 evidence that 26 of the respondents representing 52% strongly agreed that there was a sound relationship between the external auditors and the audit committee members of the municipal, 16 representing 32% also agreed to that statement while as the remaining 8 representing 16% of the respondents stayed neutral to the statement. There was no disagreement with the fact that the external audit team and the audit committee members of the Municipal have a constructive relationship.

The composition of the audit team in terms of professional competence, technical know-how and experience in the audit field, has a great influence on the final work of the auditors. The next questions the researcher wanted to find answers to was the quality of the team and the service they deliver.



**Table 4.10: Quality of People and Service**

Statement	SA	A	N	D	SD
	N	N	N	N	N
	(%)	(%)	(%)	(%)	(%)
The auditors exercise professional competence, technical knowledge, integrity, and objectivity in their work	34 (68%)	16 (32%)	-	-	-
The audit team is made up of professionals with the utmost experience and professional judgment	22 (44%)	28 (56%)	-	-	-
The auditors demonstrate a high level of independence in their work	24 (48%)	22 (44%)	4 (8%)	-	-
Practical and effective recommendations are given in respect of the organization	18 (36%)	28 (56%)	4 (8%)	-	-
Judgments given by the auditors are highly reliable	16 (32%)	26 (52%)	4 (8%)	-	4 (8%)
Financial discipline is enhanced due to the work of the external auditors	20 (40%)	26 (52%)	4 (8%)	-	-
There is value for money in the organization due to the work of the external auditors	18 (36%)	24 (48%)	8 (16%)	-	-

**Source: Field Survey (2022)**

Table 4.10 illustrates the results obtained from the investigation of the quality exhibited by the audit team in their engagement and the quality of service perceived to be delivered by the management and the staff of the Municipal per the study conducted by the researcher. The figures gathered from the study showed that,

Based on the external auditors exhibit professional competence, technical knowledge, integrity, and objectivity in their engagement, 34 of the respondents representing 68% strongly agreed that the external auditors exercised those principles of professional competence, technical knowledge, integrity, and objectivity when carrying out their audit work, 16 of the respondents representing 32% also agreed that those principles are being exhibited by the external auditors. However, there was no disagreement on the fact those audit principles were being demonstrated by the auditors when doing their audit work.

When the respondents were asked how professional the auditors were in their work, 22 representing 44% strongly agreed that the audit team is made up of professionals with the utmost experience and professional judgment, and 28 also representing 56% agreed to that assertion. The question was in direct agreement with (Al-Twaijry et al., 2004) which states that an audit requires professional staff that collectively have the necessary training, education, experience, and professional qualification to conduct a full range of audits required by its mandate.

On the issue of the auditors demonstrating a high level of independence in their work, 24 of the respondents representing 48% strongly agreed to that statement, 22 representing 44% agreed to the statement and 4 of the respondents representing 8% were neutral on the fact the auditors show a high level of independence.

Again, the respondents were asked about the external auditors giving practical and effective recommendations concerning the organization, 18 of them representing 36% strongly agreed to the statement, 28 representing 56% agreed to the statement and 4 of the respondents representing 8% also stayed neutral to the statement that practical and effective recommendations are given in respect of the organization by the external auditors.

The respondents were again asked about whether the judgment given by the auditors is highly reliable in taking decisions, the response from 16 of the respondents representing 32% strongly agreed with the statement that the judgment from the external auditors is highly reliable, 26 of them representing 52% agreed to the statement, 4 of the respondents representing 8% stayed neutral to that assertion while the remaining 4 also representing 8% strongly agreed that the judgment given by the external auditors are highly reliable to enable users to take decisions.

When the respondents were asked to give their judgment on how financial discipline is enhanced due to the work of the external auditors, 20 of them representing strongly agreed that the work of the external auditors has enhanced financial discipline at the municipal, 26 of them representing 56% also agreed that the financial discipline has been achieved due the work of the external auditors, 4 of the respondents representing 8% were also neutral to the statement.

Most of the questions that third parties or most of the users of the accounting statement of the municipal mostly ask is whether the projects executed by the municipal are worth their value. The researcher here wanted to know whether there is value for money in the organization due to the work of the external auditors, from the findings showed that 18 of the respondents representing 36% strongly agreed that there is value for money in every project putting up due to influence of the work of the external auditors, 24 of the respondents also representing 48% agreed to the statement while 8 representing 16% were also neutral to that statement.

## CHAPTER FIVE

### SUMMARY OF FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS

#### 5.1 Introduction

This chapter provides a summary of the major findings of the study, a conclusion, and recommendations. The study assesses the impact of external audits on the Municipal Assembly's activities regarding financial accountability and transparency in Ghana by focusing on the Effutu Municipal Assembly in the central region of Ghana.

#### 5.2 Summary of the findings

The analysis of the data revealed the following findings: Assessment of how effective external audit is on Municipal Assembly's financial accountability and transparency. The study was conducted in the Effutu Municipal Assembly and the following observations were made,

It was established that external audit report to some extent does not have a positive effect on Municipal Assembly in Ghana even though the majority of the respondents believe that the effectiveness of the audit is always achieved, there has been a quality of delivery and the quality of people and service is always assured, there is a high level of misappropriation of fund and lack of transparency in the activities of the Municipals about accountability and transparency.

According to the findings indicated in table 4.8 above, all respondents strongly agreed or agreed that there is Effectiveness of external auditing on the Municipal Assembly's financial accountability and transparency.

It was observed from the findings on the Quality of Internal audit Functions that, for an external audit to serve its purpose to the maximum there is a need to strengthen the internal Audit functions in the Municipals. It was evidenced that 84% % of the respondents agreed, whilst 16% were neutral

on the fact that external auditors liaise effectively with internal audit functions. In other words, it indicates that the external audit team relies on the internal audit functions of the municipal as a stepping stone to their audit work. This implies that the internal audit must possess a high level of professionalism, objectivity, and independence in their work in order to ease the work of the external auditors by placing a high level of reliance on the work of the internal audit.

The study also showed from the findings that external auditors place a high level of importance on their independence and objectivity to ensure that their reports are devoid of errors and bias. Though a little percentage of the respondents were neutral to the assertion that the external auditor place a high level of independence and objectivity in their work. That is few respondents believe (8%) that to some extent management may have some influence on the independence and objectivity of external auditors. This does not depict the fact that external auditors compromise on their independence and objectivity since the majority of the respondents, that's about 92% agreed that external auditors place a high level of independence in their engagement.

Examination of how the explanation was given by the external auditors in terms of deviations from the audit plan showed that, even though all respondents agreed to the assertion that the explanation of the audit plan, any deviation from it, and subsequent audit findings are clear and precise, that is 60% and 40% strongly agreed and agreed respectively, there was also evidence that the explanations were not well understood by the management. Some of the respondents were of the view that these situations arise because the audit engagement is sometimes left in the hands of new and inexperienced auditors in the audit team which sometimes makes it difficult thoroughly explain the audit plan and its deviations when the need arises.



The findings also showed that in terms of the auditors giving practical and effective recommendations after their audit engagement 36% and 56% strongly agreed and agreed respectively to the fact that the external auditors after their audit engagement give practical and effective recommendations to management whilst 8% were neutral on that statement. They were of the view that external auditors sometimes give theoretical explanations rather than practical and effective recommendations for their findings.

Generally, the audit team was competent and professional with the utmost expertise and professional judgment according to the findings of the study. 44% of the respondents strongly agreed with that statement and 56% agreed with that assertion, which showed that there was no doubt that the audit team assigned to undertake the audit engagement is made up of professionals with the utmost experience and professional judgment. Even though some of the respondents believed that some of the team members are new and inexperienced yet they possess those qualities that enable them to exercise true and fair judgment in their work.

When asked how identified issues are dealt with prudently, the respondents seemed to have diverse opinions. According to the findings from the study, 52% of the respondents strongly agreed that issues are prudently dealt with by the audit team and the remaining 48% also believed that issues are dealt with without giving any room for doubt and unsettledness.

The factors that helped to enhance the effectiveness of external auditing on the Effutu Municipal Assembly as evidenced by the findings of the study were the independence of the external auditors, the objectivity of the auditors, the ability of the external auditors to understand the organization's background and risk, the effectiveness of the internal control, the audit team and the management having a constructive relationship, external auditors liaising well with the audit committee and the and the internal auditing functions and also the audit having highly skilled personnel, professional

competence, and technical knowledge in carrying out the audit work. The study gathered that the recommendation and suggestions given by the external auditors should be well discussed by management to enhance financial accountability and transparency at the Municipal.

### **5.3 Conclusion**

From the research work carried out, the following conclusions were arrived at. Even though the majority of the respondents believed that the external audit has a positive impact on the financial accountability and transparency of the activities of the Municipal Assemblies, there is a high level of misappropriation of funds, and embezzlement of the fund at the Municipal Assembly.

The evidence from the study indicates that external auditors' work was centered on the factors that make them professionally competent and financial statement auditing without placing much emphasis on compliance audit, information technology audit risk management, and project evaluation. Information technology audit is one of the emerging trends in auditing due to the high level of technology in this 21<sup>st</sup> century, it becomes insufficient for external auditors to only place emphasis on auditing only the hard copies of the financial statements of the local governments but must also put a keen interest in conducting information technology audit and compliance.

### **5.4 Recommendations**

For the impact of External audit to be effective on local Government organization activities regarding financial accountability and transparency the following have been recommended.

- i. The internal audit functions should be given a high status in the assemblies so that they can be free from management manipulations. The internal Chief auditors of the various assemblies should be in high positions preferably being placed at the same level as the

Municipal Finance Officers. This will the Municipal Internal audit to function with a high level of autonomy and objectivity in activities.

- ii. There should be regular in-service training and workshops for the internal auditors to enhance their competency and knowledge of current trends in the audit profession to be on level terms with the external auditors since their work serves as the basis for the external audit work.
- iii. There should be a frequent rotation of the external auditor team to a particular assembly at least every two years to enhance the independence of the external auditors and there should be adequate resources and logistics available to enhance their quality of delivery and precisely.

### **5.5 Areas of Further Research**

This study has identified the need to assess the effectiveness of external audits in the financial accountability and transparency of Local Government Organizations. To better understand the financial accountability and transparency of Assemblies from a broader perspective, future research should be carried out covering compliance audits, project evaluation, and performance audits in the assemblies across Ghana.

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## APPENDIX

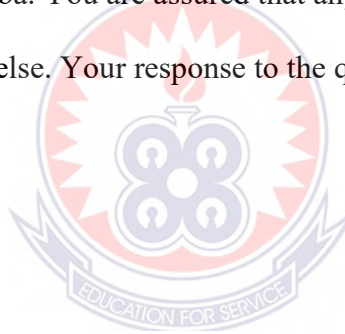
### Questionnaires to Staff

Dear Respondent,

You have been selected to respond to this questionnaire for the study for the assessment of the Effect of external audit on Financial Accountability and transparency in Municipal Assemblies in Ghana by focusing on Effutu Municipal Assembly.

This is in partial fulfillment of the award of Master of Business Administration in Accounting from the University of Education, Winneba. You are assured that any information you provide is solely meant for the research and nothing else. Your response to the questions will be kept confidential.

Thank You.





## SECTION A: DEMOGRAPHIC CHARACTERISTICS OF RESPONDENTS

*Please complete this section by ticking the applicable box*

1. Gender: Male (  ) Female (  )

2. Age:

a. 18 - 30 years (  ) b. 31 – 40 years (  ) c. 41 – 50 years (  ) d. above 50 years (  )

3. Marital status

a. Single (  ) b. Married (  ) c. Divorced (  )

4. Religion

a. Christianity (  ) b. Islamic (  ) c. Traditionalist d. Others (  )

5. What is your level of education?

a. Diploma/HND (  ) b. Degree (  ) c. Masters (  ) d. Professional (  )

6. Number of years you have worked with the company

a. less than 3 years (  ) b. 3 – 6 years (  ) c. 7 - 10 years (  ) d. over 10 years (  )

7. Which of the following best describes your current job position?

a. Management Team Member (  ) b. Senior Staff (  ) c. Junior Worker (  )



**SECTION B**

*Please indicate your answer by ticking each statement using the 5 Likert scale*

*1 = strongly Agree 2 = Agree 3 = Neutral 4 = Disagree 5 = Strongly Disagree*

**Part 1 EFFECTIVENESS OF EXTERNAL AUDITORS**

No	Questions	1	2	3	4	5
1	The Auditors inform you at least annually about steps they take to ensure independence and objectivity					
2	The auditors show an understanding of the organizational risks and issues that are considered important					
3	The Auditors are firm with their challenges to management where appropriate					
4	The auditors provide you with information to explain their internal quality control procedures where requested					
5	The auditors liaise effectively with internal audit functions					

**Part 2: QUALITY OF DELIVERY**

NO	Questions	1	2	3	4	5
1	The auditors have a constructive relationship with the management					
2	The explanation of the audit plan, any deviation from it, and subsequent audit findings are clear and precise					
3	The important accounting stance made by management, their impact on the financial statement, and the views of the auditors on their treatment are clearly explained					
4	Identified issues are prudently dealt with without any room for surprises					
5	The auditors have a constructive relationship with the audit committee					

**PART 2: QUALITY PEOPLE AND SERVICE**

NO	Questions	1	2	3	4	5
1	The auditors exercise professional competence, technical knowledge, integrity, and objectivity in their work					
2	The audit team is made up of professionals with the utmost experience and professional judgment					
3	The auditors demonstrate a high level of independence in their work					
4	Practical and effective recommendations are given in respect of the organization					
5	Judgments given by the auditors are highly reliable					
6	Financial discipline is enhanced due to the work of the external auditors					
7	There is value for money in the organization due to the work of the external auditors					

**PART 3: MEASURES TO IMPROVE THE QUALITY OF AUDITING IN LOCAL GOVERNMENT ORGANIZATIONS**

What necessary measures should be taken to improve the efficiency and effectiveness of audit functions in local government organizations?

- a. ....  
.....
- b. ....  
.....
- c. ....

