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**Internal Auditing Functions and Good Governance in the Banking Sector of Ghana**

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**Abstract**

Corporate governance is critical for banks performance and survival. The purpose of this study is to explore the impact of internal auditing on good corporate governance in the banking sector. With 200 respondents, questionnaire was used to collect the primary data. It was also quantitative and correlational design. In all, 4 hypotheses were formulated. The results show that internal auditors' competence, management support, independence and risk assessment and control make up the internal auditors' work effective and leads to good corporate governance. It was therefore, concluded that internal auditing is very important to the successful management of the banking sector in Ghana.

**Keywords:** corporate governance, internal auditors, competence, management support, independence, risk assessment.

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## INTRODUCTION

This focus on the impact of internal auditing (IA) in terms of theory and practice has been steadily increasing over the past few decades. In both for-profit and non-profit businesses, there is an increasing emphasis on internal auditing (IA) due to the need to prevent fraud and errors (Sulub et al., 2020). It is possible to improve economic and statistical outcomes for corporations by correctly implementing.

Corporate governance within institutions (Ammann et al., 2011). By adopting best practices in corporate governance, banking leaders may help the bank achieve greater long-term financial performance and a more favorable market for the bank (AlQadasi & Abidin, 2018; Mazzotta & Veltri, 2014). Conflicts of interest between shareholders and management can be minimized by the use of corporate governance (Al-Matari & Al-Arussi, 2016). Companies with good corporate governance have higher share prices, which in turn raises the company's overall value (Ararat et al., 2017). Firms with good corporate governance demand high audit quality and are willing to pay high audit fees in order to maximize their corporate worth (AlQadasi & Abidin, 2018). As a result of having competent internal audit capabilities, some past research have shown that organizations that have strong governance will hire big-name auditors or Big4 (Cassell et al., 2012) and tend to spend higher audit fees (DeFond & Zhang, 2014). As early as the 1980s, many people believed that internal auditors were primarily responsible for doing typical financial audits (Watt & Schwartz, 2018). It is critical to have an internal audit function in order to reduce the likelihood of falsified financial statements and to give assurance and independent consultation for decision-making purposes (Dzikrullah et al., 2020).

Since the year 2000, the focus of internal auditing has shifted to include enforcement monitoring, internal control monitoring, and program quality management (Fairchild et al., 2019). Both public and private sector organizations have begun to use internal audits as an effective instrument for corporate governance. Companies with good corporate governance need high audit quality and are willing to pay high audit fees in order to create good corporate value for their investors (AlQadasi & Abidin, 2018). As a result of having strong internal audit capabilities, some previous research have found that organizations with effective governance tend to hire big-name auditors and pay high audit fees (Cassell et al., 2012). (DeFond & Zhang, 2014). To eliminate shareholder-manager conflicts of interest and to assure accurate financial reporting, the audit is typically seen as a governance device in governance literature (Carcello et al., 2011). It is important, however, that the audit is of the highest quality (Manita, 2015).

For shareholders of banks, investors, and other stakeholders, researching the relationship between internal auditing and corporate governance is critical because of the role banks play in stabilizing the national economy (Alkazalia et al., 2021). This study, therefore, aims to assess the impact of the internal audit functions on corporate governance in the Ghanaian banking sector. The study will contribute to literature by providing new empirical data on how the effectiveness of internal audit function can banks to manage the corporation very well. It also serves as an avenue for managers to strengthen their IA systems to aid in achieving corporate governance objectives in the sector.

*Research Objectives*

1. To identify the major functions of internal auditing which make it effects
2. To examine the effect of the major functions on good corporate governance

*Research Questions*

1. Are there major functions of internal auditing which make it effects?
2. What is the effect of the major functions on good corporate governance?

**LITERATURE REVIEW***Underpinning theory**Stakeholder theory*

The study's theoretical framework was based on the stakeholder theory. In both the corporate and public sectors, the stakeholder perspective has been widely used. All stakeholders can benefit from better access to information if the company practices good corporate governance. Transparency, accountability, independence, and fairness are the cornerstones of good corporate governance, which promotes all stakeholders to share information and, as a result, reduces the opportunity for corporate management to defraud investors and boost profits (Ejeagbasi et al., 2015). As a result, shareholders and other interested parties expect that internal auditors will keep an eye on their interests in order to close the information gap (Stewart & Kent, 2006a). Corporate governance is supposed to run smoothly when shareholders, as the company's owners, are able to provide enough oversight (Demsetz & Villalonga, 2001). Corporate governance can be effectively implemented if the kind of concentration of corporate ownership is maintained.

*Internal auditing*

An act of parliament (Act 658) established the Internal Audit Agency in 2003 as an apex oversight body for ministries, departments, and agencies, as well as metropolitan, municipal, and district assemblies, to coordinate, facilitate, and offer quality assurance for internal audit activities (IAA Ghana, 2008). A company's internal audit is a review of the correctness, reliability, efficiency, and usefulness of the company's recordkeeping firm (accounting) and internal control (Abdullah et al., 2018). A primary objective is to assist the company's management in fulfilling its responsibilities to provide analyses, assessments, suggestions, and comments on the audited operations (Septiawan, 2016). Any company's management cannot function properly and efficiently without the assistance of internal auditing. Managers should be able to devote more time and effort toward their administrative duties, so that the everyday monitoring of state-owned firms can be carried out more thoroughly and effectively without lessening their obligations (Rahayu & Rahayu, 2020). Research shows that IAF's stated goal of increasing operational efficiency in enterprises by making strategic recommendations and assessing the effectiveness of risk management in firms is achieved, as shown by several studies (Carcello et al., 2017). According to Jiang et al. (2019), archival evidence shows that the advising role of the internal audit function (IAF) has a considerable and favorable impact on operating performance. Internal audit, according to Schartmann (2007), is 'an assurance and consulting role with its systematic and disciplined approach', he says. The effectiveness of an organization's risk management program is another focus of internal audit. Also, internal auditing is concerned with

verifying that the organization's operations are in accordance with the mandated organizational governance and constitutional processes that have been established (Schartmann, 2007).

#### *Factors for effective Internal Auditing*

If an internal audit is successful in meeting its aims and achieving its goals, it has proven to be beneficial, say Asaolu et al (2016). The four independent components, including independence, management support and competencies, and the workplace atmosphere of internal audit teams, are crucial in describing the functions of IA.

#### *Competence*

Persuasion, communication and teamwork abilities are essential for internal auditors to do their jobs successfully. The external auditors evaluate the performance of the IA based on their skills (Khamis, 2016). As a result of having a higher level of education, more competent internal auditors are well equipped to obtain and investigate important data (Lai & Liu, 2018). The competence of an IAF is determined by the level of expertise, knowledge, and skills possessed by its internal auditors (Abbott et al., 2016). Internal audit success is positively influenced by the level of competence of IA workforce with regards in terms of experience, training, knowledge, and specialized qualifications.

#### *Independence*

IA independence can improve financial reporting accuracy and internal control efficiency, both of which can improve company operating efficiency (Fadzil et al., 2005). (Cheng et al., 2018). With no intervention from any party, the internal audit department is able to attain its independence, which is the most important aspect in making the internal audit system effective (IIA, 2008). Auditor independence has a significant impact on internal audit effectiveness, according to a research by Al-Twajjry (2003) in Saudi Arabia. Although the relationship between internal auditors and, say, the CEO or CFO has an effect on the influence internal audit is exerted over (Sarens & Beelde, 2006; Van Peurseem, 2005). It is the independence and objectivity of internal auditors that define their efficiency (Mahadeen et al., 2016).

#### *Management Support*

Internal auditing is also considered to be influenced by the support and dedication of the company's management. When it comes to internal audit, management's support is critical to its success (Kinyua, 2016). An internal audit, like any other activity carried out within an organization with the assistance most often necessary, is a resource (money and time) lost without management commitment, which is something managers understand and value (Eke, 2018).

#### *Risk Assessment and Control*

On the top-down approach, the risk assessment considers the influence of risks on stockholder price in order to advance an audit and risk checking plan. A sufficient internal control environment, risk response implementation through control and monitoring activities, and the deployment of risk response processes are all essential components of contemporary risk management basics (Vousinas, 2015). Many firms' IA departments now play a key role in helping the company implement, evaluate, or conceptualize risk management and control procedures (Johari, Hati, Hadi, & Rashid, 2018). As internal auditing's role continues to expand, bank

executives is ever more depending on IA to control deceit risks and secure their enterprises. If a fraud is discovered, IA is also responsible for assessing the consequences of such a crime.

#### *Corporate Governance (CG)*

An effective system of corporate governance encompasses the entire formal-informal network of interactions in the banking sector, as well as its ramifications for society at large (Unescap, 2018). According to the most common definition, CG encompasses both the organization's structure and its connections (AlQadasi & Abidin, 2018). The IIA defines CG as the interaction of a committee with processes and systems intended to inform, guide, manage, and monitor the operations of the business toward its goals. The role of the board of directors in corporate governance is well recognized (Septiawan, 2016). Participatory, consensus-oriented, accountable, open and responsive government is the hallmark of good CG. It also adheres to the rule of law and is transparent (Owolabi, 2019). These attributes can reduce corruption and improve reactivity to current and future community demands in the workplace (Unescap, 2018). Performance in reaching or attaining a set of objectives connected to a company's success is a measure of corporate governance effectiveness. The size of a company's board of directors is just one of several factors that contribute to its overall effectiveness. A larger board's ability to deliver additional services and resources, as well as the range of its members' knowledge, makes it more useful (Adeyemi & Fagbemi, 2010). For a variety of reasons, academics and practitioners alike have given CG increased attention. Several advantages have been cited, including a boost in investor confidence, which in turn improves investment prospects (Akbar et al., 2020; Hermuningsih et al., 2020; Ngatno et al., 2021). A company's Board of Directors and management are able to fulfill their goals by employing capabilities and maintaining a close check on operations thanks to Warrad and Khaddam (2020). As a result of banking concerns like the 2008 financial crisis, policymakers in a variety of industries, including banking, were obliged to establish systems like governance to improve business practices (Bhagat & Bolton, 2019). There is a substantial correlation between a firm's financial performance and its CG. CG principles (i.e. governance effective framework, shareholders' rights, and stakeholders' role, obligations of the board members, and disclosure and transparency) by Othman and AlMatarna (2016) significantly impacted the firm productivity of Commercial Companies in Jordan. As a single construct, CG requirements had a major impact on the financial performance of public shareholding companies, but there was no significant impact on sales growth rate.

#### *Internal Auditing and Good Corporate Governance*

In order to guarantee that ethics are practiced at all levels of a company, internal auditors should work closely with audit committees, the board of directors, and management (Abdullah et al., 2018; Veselovsky et al., 2018). It is defined as an impartial, objective assurance and advising operation that provides value-added and improves operations. Risk management, control, and governance management processes, as well as the performance they provide, are made easier for a company when they are implemented in a methodical, disciplined manner (IIA Framework for Professional Auditing, 2016). Through the provision of quality assurance and advisory services, internal audit has played an increasingly essential role in corporate governance (Rahayu & Rahayu, 2020). Internal auditors play a critical role in establishing a strong internal control

system. Internal auditors, by their audit efforts, can ensure that good governance is established in the organization (Utami, 2018). Strong corporate governance is associated with higher audit fees and more frequent requests for detailed external audits, according to AlQadasi & Abidin (2018) and Awadallah (2018). These findings demonstrate that strong external audit quality is necessary for effective company governance to serve the interests of all stakeholders. Shareholders must support management's efforts to create strong corporate governance in order to produce high audit quality. Hence the following hypotheses have been formulated:

*H1: There is a positive and significant influence of IA Independence on good corporate governance*

*H2: There is a positive and significant influence of IA management support on good corporate governance*

*H3: There is a positive and significant influence of IA risk assessment and control on good corporate governance*

*H4: There is a positive and significant influence of IA competence and good corporate governance*

## **METHODOLOGY**

### *Design*

Qualitative, quantitative, or hybrid techniques of study are the only ways to fully grasp a phenomenon, say Makrakis and Kostoulas-Makrakis (2016). To conduct this research, we decided to use a quantitative approach. Because the quantitative method analyzes items in their natural environment (Saunders, Lewis, & Thornhill, 2016), the researchers examines data as well as the interaction between factors and the research to solve a specified hypothesis (Cox, 2012). The essential focus of quantitative research is hypotheses and theories (Crane, Henriques, & Haskel, 2017). Researchers use quantitative method questions to examine the relationships and variances among variables, whereas quantitative hypothesis testing is used to determine the link between variables (Callaghan, 2019; Crane et al., 2017). We employed a quantitative method in this study to evaluate the relationship between IA and company governance through quantitative analysis. For this investigation, we went with a correlational approach. We used a correlational design to explore the relationship between research variable in this study (Yilmaz, 2013). Statistical and charting approaches were employed in order to assess and analyze the numerical data.

### *Sampling and Data Collection*

There were no non-audit workers in the Commercial banks included in the study's sample. Commercial bankers' top management, department heads, and accountants all fall within this category. The sample was categorized by the researchers using approaches that were both purposeful and convenient. Purposive sampling allowed the researcher to find the respondents of the study, and convenient sampling was used to save time and money because of the respondent's traits and understanding of the subject matter. A total of 200 people took part in the survey. In this survey, the data was gathered through the use of a survey questionnaires. The questionnaire, according to Kothari (2004), has various advantages, including inexpensive cost due to its vast geographic range, bias-free since it employs respondents' own language, ample responsiveness, and an actual approach for collecting respondents with challenges.

### *Data Analysis*

We used SPSS-AMOS to perform the analysis. To check internal consistency, the researchers performed validity test through tests using Cronbach alpha coefficient ( $\alpha$ ). We also run

convergent validity using Composite Reliability (CR) and Average Variance Extracted (AVE). Both CR and alpha should be 0.7 to be make the instrument internally consistent, whilst, AVE should be well above 0.5 to have convergent validity.

## RESULTS

### *Reliability and convergent validity*

The constructs' internal coherence to analyze the indicators' dependability, they employed a composite reliability (CR) metric (values ranging between 0 and 1). Only when the CR number is more than 0.7 is it considered to have appropriate internal consistency (Gefen et al., 2000). All reflecting indicator loadings greater than or equal to 0.7 in the SEM model were considered adequate in terms of convergent validity and were kept. Also, if the construct's average variance extracted (AVE) did surpass 0.5, then items yielding values higher than this were kept. The AVE's variance explained as a percentage by the component suggested the same idea. All of the latent variables in the model were found to have appropriate convergent reliability, with their AVE values exceeding 0.5 in the examined model. Last but not least, whether the item is included or not, the factor's AVE remains above 0.5. In Table 1, all AVEs are greater than 0.5, demonstrating convergent validity (Hair et al., 2016). The AVE technique was used to test for discriminant validity (Fornell & Larcker, 1981). Each pair of constructs has an AVE that is greater than the square of the corresponding correlation (see table 2).

**Table 1: Loadings, Reliability and Validity**

Constructs	Loadings	$\alpha$	CR	AVE
Independence		0.92	0.87	0.74
	0.74			
	0.81			
	0.70			
Management Support		0.87	0.92	0.67
	0.72			
	0.72			
	0.75			
Risk Assessment and Control		0.94	0.96	0.57
	0.80			
	0.73			
	0.77			
	0.74			
Competence		0.88	0.87	0.59
	0.77			
	0.72			
	0.70			
	0.72			
Corporate governance		0.87	0.88	0.71
	0.70			
	0.83			

0.77

0.72

0.80

**Table 2: Discriminant Validity**

Constructs	AVE	IND	MS	RAC	COM	CG
Independence	0.74	0.86				
Management Support	0.67	0.56	0.82			
Risk Assessment and Control	0.57	0.65	0.55	0.75		
Competence	0.59	0.60	0.47	0.43	0.77	
Corporate governance	0.71	0.51	0.56	0.52	0.41	0.84

*Hypothesis Testing*

The path analysis of the independent constructs (IND, COM, RAC and MS) and dependent variable (CG) are assessed in table 3 below.

The link between the independence of internal auditing and good corporate governance are both significant and positive ( $\beta = 0.44$ ;  $t = 5.45$ ; and  $p = 0.004$ ). Hence, the more independent internal auditors are, the stronger the corporate governance in the banking industry in Ghana. This confirms hypothesis 1 of the study.

The relationship between the management support towards internal auditing and good corporate governance is significantly positive ( $\beta = 0.37$ ;  $t = 5.87$ ; and  $p = 0.001$ ). Hence, the more management support towards internal auditors are, the stronger the corporate governance in the banking industry in Ghana. Hence, hypothesis 2 was confirmed.

The association between the risk assessment and control function of internal auditing and good corporate governance is both significant and positive ( $\beta = 0.57$ ;  $t = 9.41$ ; and  $p = 0.000$ ). Hence, the more risk assessment and control function of internal auditors are, the stronger the corporate governance in the banking industry in Ghana. This again confirms hypothesis 3 of the study.

The connection between the competence of the IA and worthy company governance is significantly positive ( $\beta = 0.59$ ;  $t = 10.83$ ; and  $p = 0.000$ ). Therefore, the more competence of the internal auditors are, the robust the company governance in the banking/financial sector in Ghana. Hence, the findings supported hypothesis 4. So the job of the corporation's internal audit department was to play a role in governance that had an impact on the operating value.

**Table 3: Hypothesis Testing**

Hypothesis	Paths	$\beta$	t-value	p-value	Decision
H1	IND $\rightarrow$ CG	0.44	5.45	0.004	Supported
H2	MS $\rightarrow$ CG	0.37	5.87	0.001	Supported
H3	RAC $\rightarrow$ CG	0.57	9.41	0.000	Supported
H4	COM $\rightarrow$ CG	0.59	10.83	0.000	Supported

**DISCUSSIONS**

Internal audit functions and corporate governance interactions have an impact on all economic operations, according to Pertsinidou (2018). The importance of internal audits and company governance has already piqued the attention amongst scholars and practitioners. This current

study confirms that all the four internal audit functions are effective in influencing corporate governance in Ghana. This was similar in literature, since according to Zou (2019), IA functions and company governance are strongly linked in the banking industry. In order to carry out their responsibilities, internal auditing staffs must be empowered and qualified. There must be a mechanism to empower internal auditors to perform their responsibilities and jobs in accord with professional instructions and principles, (Tinkasimile, 2009). These internal auditors are constrained by the amount to which management tends to interfere with their professional responsibilities.

Internal Auditors' competence was found to be influencing good company governance in the banking industry in the current study. Similarly, other studies (Khamis, 2016; Lai & Liu, 2018) found internal auditors' proficiency in computerized systems, internal auditing software, work applications, professional abilities in internal auditing, and other professional skills were found to be important in determining the effectiveness of Ghanaian commercial banks' audit function. Because internal audits are not performed on a regular basis, management support has an impact on their efficacy. The majority of those who responded agreed on this. Audit staff in charge of internal auditing are empowered to work on their own initiative.

Results show that more than half of respondents believe that internal auditing is not up to snuff for various reasons, including that the organization does not follow internal auditing standards, that the auditors are not free to express their judgment.

## CONCLUSION

According to the findings, the IA function has a greater effect on promoting good company governance, as the current study confirms. Significant determinants of good corporate governance were identified in the roles of internal auditors including assessment of agreement, risk valuation, and effective co-sourcing. To put it another way, these elements were key influencers on the effectiveness of corporate governance practices. An IA has an enormous influence on the effectiveness of bank company governance. Using IA as a tool for excellent corporate governance and management of the agency problem, the study advances the academic discussion on IA's role in corporations and non-profits alike. It is an important contribution. This study is significant because it fills a void in the literature on the connections between IA functions and company governance in Ghanaian commercial banks. On the ground, it can help internal auditors at commercial banks in Ghana focus on the quality of their audit function.

## RECOMMENDATION FOR FURTHER STUDIES

Furthermore, it is suggested that future studies be conducted to better understand both similarities and differences between internal audit and external audit, as well as possible expansion based on a study of the legal system of internal audit and external audit organizations, major functions, major areas, and technology.

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