The Compliance or Non-Compliance of the Internal Audit Department of Organisations With the Guidelines Specified by the Institute of Internal Auditors (IIA) A Case Study of Star Assurance Company Ltd.

By
Asare Baffour

Supervisor
Eva Wittbom
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Abstract

This study investigated the compliance or non-compliance of organisations with the critical elements required for setting up and operating an internal audit department as expected by the Institute of Internal Auditors UK. Compliance with the Standards is mandated by the IIA for every individual who provides internal audit services. The researcher used a case study to explain the relationship between the variables: the case of the internal audit department of Star Assurance Company. The researcher employed both primary and secondary data, qualitative and quantitative research methods were also used to examine the internal audit department of Star Assurance Company Ltd (SAC). A number of data collection methods were combined to verify the reliability and accuracy of the data as suggested by Yin (2003). The study used a combination of data collection tools; a Survey, Questionnaire, Relevant Corporate Documents and Observation. Literature, which was relevant to the subject matter, was reviewed to determine the benchmarks for an effective internal audit department. The study discussed the key functions of an internal audit department and the major objectives of internal audits. The study also discussed the independence, organizational status and objectivity required for effective performance of the department. The study also discussed the role of internal auditors and the critical elements required of every effective internal audit department. The challenges faced by internal audit departments were also discussed. Useful insights were taken from the Institute of Internal Auditors guidelines and also the Sarbanes Oxley Act. A brief profile of the company, which was studied, was included in the work. The research revealed that the company had made significant efforts to comply with the requirements of the IIA. I concluded by making recommendations, which the company could adopt to enable them, comply more extensively with the IIA guidelines.
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Thank you and God bless you.
Glossary

**Motor insurance:** this is a line of business which provides covers for vehicles only. This includes, motor comprehensive, motor third party etc.

**Non-motor insurance:** this is a line of business which provides covers for all other risks except vehicles. This includes Fire and Allied Perils, house owners’ Comprehensive, Personal Accident, Bankers Indemnity Policy etc.

BRC - Blue Ribbon Committee
CAE - Chief Audit Executive
CIMG - Chartered Institute of Marketing, Ghana
COSO – Committee of Sponsoring Organisations of the Treadway Commission
IAA- Internal Auditing Activities
IAF – Internal Audit Functions
IIA - Institute of Internal Auditors
IIAM - Institute of Internal Auditors Malaysia
IT – Information Technology
ISPPIA - International Standard for the Professional Practices of Internal Auditing
MICG - Malaysian Institute of Corporate Governance
PPF - Professional Practice Framework
PA - The practice advisories
PNDCL – Provisional National Defence Council Law
POB - Public Oversight Board
SAC - Star Assurance Company Ltd
CHAPTER 1

1.0 BACKGROUND OF THE STUDY

1.1 Introduction

Globalization of business, technological advancements, increasing business failures, and widely publicized fraud have encouraged entities to place more emphasis on their internal control systems and internal audit functions. (Zabihollah Rezaee, 1995). Thus Worldwide the demand for internal auditors continues to grow due to the function of internal auditing as a risk evaluation and management unit. At the same time many giant international companies have collapsed because of weak auditing practices, the likes of Enron, Maxwell, Worldcom, etc. Internal auditing has undergone dramatic changes that have expanded its scope in a way that allows it to make greater contributions to the organization it serves (Fadzil et al, 2005). Similarly, internal auditing is performed in diverse legal and cultural environments; within organizations that vary in purpose, size, and structure; and also by persons within or outside the organization. The growth in demand for the services of the internal auditor and the growing complexities of internal audit functions has generated interest among stakeholders in the field of Auditing. The Institute of Internal Auditors (IIA) has standards that constitute the criteria by which the operations of an internal auditing department are evaluated and measured and intended to represent the internal auditing practices, as it should be. While diverse legal and cultural environments within organizations and variations in the purpose, size and structure of organizations may affect the practice of internal auditing in each environment, the IIA regards compliance with the International Standards for the Professional Practice of Internal Auditing as essential if the responsibilities of internal auditors are to be met (IIA, 2007, pp. 3-4).

The guidance taskforce of the IIA (2001) defines the internal audit function as: “An independent objective assurance and consulting activity designed to add value and improve organizations operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes” The new definition shifts the focus of the internal audit function from one of assurance to that of value added and attempts to move the profession towards a standards-driven approach with a heightened identity. (Bou-Raod, 2000; Krogstad et al; 1999).

A survey done by the Malaysian Institute of Corporate Governance (MICG),The Institute of Internal Auditors Malaysia (IIAM) and Ernst and Young concluded that internal auditors are best placed to understand and appreciate the business processes of a company and they act as
management consultant to reduce risks. Internal auditors also help run a company more efficiently and effectively to increase shareholders’ value (Fadzil et al, 2005). The profession of internal auditing is a rich resource for organizations as the IAA monitors the adequacy and effectiveness of management’s internal control framework and contributes to the integrity of corporate governance; risk assessment; and financial, operating, and IT systems (Burnaby and Hass, 2009).

In the light of the growth in its function, complexities, and demand for its services many have called for internal auditors to be out in front, leading the business units with regards to the internal control system and also focusing on strategic business objectives. According to Sawyer and Vinten (1996), internal auditors also need to establish themselves as vital cogs in their organizations, rather than as observers who watch from the periphery and wait for events to impact them.

In all these developments, one issue that has emerged relating to the internal auditing practices is; “what is a proper and sound measurement of the internal auditing practices?” In the words of Barrett (1986), “effectiveness (of internal audit) can be described, but it is difficult to quantify and in the final analysis, effectiveness is determined by the perception of auditees”. In the company environment, management is the most important auditee of the internal audit department since effectiveness of the internal auditing practices can be described through the expectations of management with regard to the internal auditing. The management will expect the internal auditors to perform their internal auditing practices to a certain level that is complying with the Standards of international bodies like the IIA. Compliance with Professional Practice Framework (PPF), is therefore an indication of the effectiveness of the Internal Audit Department.

This study seeks to find out if the expansions and growing complexities in the function of internal auditing has had any impact on the internal auditing department of a small private unlisted company like Star Assurance Company Ltd, and also to provide empirical evidence whether the internal department of organizations are complying with internal auditing practices designed to ensure an effective and efficient auditing system. The overriding issue addressed in this thesis is whether or not the new definition of the IIA actually reflects the operational activities of the internal audit department of organisations.
1.2 Statement of the Problem

In recent years instances of fraudulent financial reporting have increased with such frequency and in such dramatic ways that stakeholders at all levels have been astounded (Myers, and Ziegenfuss, 2006). Globalization of business, technological advancements, increasing business failures, and widely publicized fraud demand that entities place more emphasis on their internal control systems and internal audit functions (Zabihollah Rezaee, 1995). Auditing in corporate governance entails an independent and objective review of the account of stewardship of an enterprise in order to express a neutral opinion as to the prudence and judicious management or otherwise of the statements so prepared. The collapses of high profile companies like Maxwell, Polly Peck in the United Kingdom raised fundamental questions about corporate mechanisms for controlling and managing such enterprise. The problem even heightened in the wake of the collapse at Enron and WorldCom where serious doubts were cast upon the relevance and adequacy of audit in providing the envisaged accountability of directors to shareholders or owners. These cases throw light on the importance of the role of internal auditors, which was only recognised and emphasised after irregularities were discovered.

The auditing profession, both internal and external, has come under increasing scrutiny since the highly publicised collapse of energy trader, Enron (Vinten, 2003), and corporate governance has also received increased attention in the accounting and auditing literature. In recent years, for e.g. the panel on Audit Effectiveness Report and Recommendations (Panel on Audit effectiveness of Public Oversight Board, 2000) and the report and recommendations of the Blue Ribbon Committee on improving the effectiveness of Corporate Audit Committee (Blue Ribbon Committee on improving the effectiveness of Corporate Audit committees, 1999). Cadbury (1992) published reports related to controls and corporate governance in 1992 (Colbert L. Janet 2002). While these reports and others address, in varying degrees, corporate governance and internal and external audit issues, very little, if anything has been written which specifically focuses on private unlisted companies of which Star Assurance Company is one.

Star Assurance as a corporate entity is equally at risk of collapse if proper systems of controls are not put in place. In the light of this uncertainty, the study wishes to assess the problems small companies face in their attempt to introduce internal audit functions and also draw their attention to the benefits they may derive. This is also because with a lot of companies, the owners are present which serves as a control measure and therefore they may not appreciate the need for an internal audit department.
1.3 Objective of the Study
The main objectives of the study are as follows:

1. To critically evaluate the internal audit department of Companies in Ghana and their compliance with critical elements of internal audit operations as outlined by IIA.
2. Identify short-comings or weakness in the Internal Auditing practices of the Auditing Departments if any.
3. Make recommendations to improve on weaknesses and short-comings of the internal auditing departments.

1.4 Relevance of the Study
The study is relevant for the following reasons:

a. To determine whether organisations have the requisite control measures in place to provide assurance to the various stakeholders as required by the IIA.

b. To draw the attention of the management of various organisations to their short comings and ways of improving on them.

c. To stimulate further research into other areas of internal control in Ghana.

1.5 Organisation of the Study
The thesis is organised into six chapters; Chapter -1 above looked at the Background of the study; Chapter -2 is a Literature Review, reviewing the relevant literature and taking and comparing notes of studies that have been done and reflecting on its relevance to the topic understudy; Chapter -3 profile of the company; Chapter -4 identifies the Research methodology applied to the study; Chapter -5 provides Empirical findings, analysis and interpretation of the study results; and Chapter -6 presents the Recommendations and conclusions

1.6 Summary
This chapter has discussed the internal audit concept as stated by the IIA. The guidance taskforce of the IIA (2001) defines the internal audit function as: “An independent objective assurance and consulting activity designed to add value and improve organizations operations. It helps an organization accomplish its objectives by bringing a systematic,
disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.” The new definition shifts the focus of the internal audit function from one of assurance to that of value added and attempts to move the profession towards a standards-driven approach with a heightened identity. The chapter also discussed the three main objectives and relevance of the study. A few limitations of the study were also discussed. The study was organized in six chapters.
CHAPTER 2

2.0 LITERATURE REVIEW

2.1 Introduction

This chapter reviews a range of literature and concepts relevant to the study. The literature review is centered around the core aspects of internal auditing, these include the functions of Internal Audit, objectives of internal audit, the role of internal auditors, Means of achieving internal Control, the control environment, Board of Directors or Audit Committee, Authority and Responsibility, Audit Committee Financial Expert, Organisational structure, and the challenges of Internal auditing. The core components above, guide the establishment and effective functioning of internal auditing departments and the Audit department of Star Assurance Company Ltd. for that matter, and therefore to adequately treat the topic of internal auditing and the case of the audit department of the Star Assurance Company Ltd., it is important that we understand these important aspects and the extent of work that have been done on them.

2.2 Functions of Internal Audit

Organizations have encountered rapid changes in economic complexity, expanded regulatory requirements, and technological advancements in recent years. These changes have given the internal audit function (IAF) a set of expanded opportunities to support management, provide services to other organizational functions, and generate direct reporting links to the audit committee. (Hass et al, 2006)

According to Cai Chun, (1997) the function of internal audit is a vital and controversial problem in auditing theory and practice worldwide. There has been a widespread view in the western auditing circles that internal audit is an independent appraisal function. (Cai Chun, 1997)

In June 1999, the Institute of Internal Auditors (IIA) officially adopted a new definition of the internal auditing function. The new definition was developed by the Guidance Task Force and defines the internal audit function as:

‘An independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes (IIA, 2001)
2.3 Objectives of Internal Audits

Before the 1950’s internal audit activities in many organizations focused on financial audit, and internal audit departments were heavily involved in the review of financial statements. (Cai Chun, 1997)

At present, however internal audit takes on a much broader and deeper perspective just as suggested in the IIA’s statement of responsibilities of internal auditors: The objective of internal auditing is to assist all members of management in the effective discharge of their responsibilities by furnishing them with analysis, appraisals, recommendations and pertinent comments concerning activities reviewed (Cai Chun, 1997). Internal auditors are concerned with any phase of business activity in which they may be of service to management. This involves going beyond the accounting and financial records to obtain a full understanding of the operations under review. But because the objective of internal audit must be consistent with the function of internal audit itself, it should also be to ensure and promote the effective performance of accountable management.

To achieve the functions and objective discussed previously, internal auditors must create and provide at least, three conditions- independence, organizational status and objectivity, before setting up and conducting internal audit. (Cai Chun, 1997)

Independence and objectivity is seen as an important attribute to the quality of internal audit function (IIA, 2000; Bethea, 1992; Traver, 1991; Farbo, 1985; Clark et.al; 1980; Glazer and Jaenicke, 1980). If internal auditors are not independent and objective, they are of little value to those who demand their service (Clark et.al; 1980, Elliot and Willingham, 1980; Ward and Robertson, 1980, Williams, 1978) the internal audit department must be granted the license to carry out its responsibilities freely and objectively and also their judgments must be unbiased.

2.4 Ethical Guidelines

Compliance with the IIA’s Code of Ethics and Standards is mandatory for those who provide internal auditing services. (Burnaby et al. 2009). As the IIA’s Code of Ethics must be followed by all those that provide internal auditingservices, guidance on how to apply the Standards is provided in the IIA’s Practice Advisories which are endorsed and strongly recommended by the IIA.
2.4.1 Independence

The duty of internal auditors clearly requires them to be independent. (Ahmad and Taylor, 2009) The International Standard for the Professional Practices of Internal Auditing (ISPPIA, 2006) defines “independence” in terms of freedom from conditions that threaten objectivity and the appearance of objectivity. The ISPPIA (2006) states that “objectivity” means internal auditors are expected not to subordinate their judgment on audit matters to that of others, especially management. Independence, based on the criterion of objectivity, is pivotal to the internal auditing profession and internal auditors (Mutchler, 2003). Independence is unavoidable for internal auditors (Vanasco, 1994). Internal auditors should not be placed in a position where their independence can be questioned and feel unable to make objective professional judgments (Vanasco, 1994). Ideally, internal auditors must be free to report matters they audit as they are and their reporting activities are not subject to any influences (Sawyer and Dittenhofer, 1996)

It is the essence of auditing-An internal auditor must be independent of both the personnel and operational activities of an organization otherwise the integrity of the auditors opinions, conclusions and recommendation would be suspect. So independence is necessary for the effective achievement of the function and objective of internal audit. This independence is obtained mainly from two characteristics-organisational status and objectivity. (Cai Chun, 1997)

2.4.2 Organisational Status

As suggested in the IIA’s statement of responsibilities, the organizational status of the internal auditing function and the support accorded to it by management are major determinants of its range and value. The head of the internal auditing function, therefore, should be responsible to an officer whose authority is sufficient to assure both a broad range of audit coverage and the adequate consideration of an effective action on the audit findings and recommendations. (Cai Chun, 1997)

Therefore internal auditors should report to an organisational level above the levels audited. It is very obvious that the higher the organizational level reported to, the greater the range of the potential effectiveness of internal auditors and their functions which is consequently more beneficial to reaching the objectives of internal audit. (Cai Chun, 1997)

2.4.3 Objectivity

The IIA’s statement deals with objectivity as follows:

Objectivity is essential to audit function. Therefore internal auditors should not develop and install procedures, prepare records or engage in any other activity, which they would
normally review and appraise and which could reasonably be construed to compromise the independence of the internal auditor. Determining and recommending standards of control to be applied in the development of the systems and procedures being reviewed need not adversely affect the internal auditor’s objectivity, however. So internal auditors are certainly not simply one of the organisational controls; they must be the control over all other organisational controls. (Cai Chun, 1997). These conditions, if present, can make the internal audit department effective.  

(Sawyer and Vinten, 1996) wrote that internal auditors need to be out in front, leading the business units with regards to the internal control system and also focusing on strategic business objectives. The internal auditors also need to establish themselves as vital cogs in their organizations rather than observers who watch from the periphery and wait for events to impact them. 

The effectiveness of internal audit can be described but it is difficult to quantify and in the final analysis, effectiveness is determined by the perception of auditees. (Barrett, 1986) 

In the company environment, management is the most important auditee of the internal audit department since effectiveness of the internal auditing practice, can be described through the expectations of management with regard to the internal auditing practices. The management will expect the internal auditors to perform the internal auditing practices to a certain level that is complying with the Professional Practice Framework (PPF) since it can be easily described. Compliance with PPF is therefore an indication of the effectiveness of the internal audit department. 

Most internal audit professionals argue that an effective internal audit function unequivocally correlates with an organizations success in meeting management objectives and whether the internal control system is functioning as intended.  

According to Fadzil et al, 2005, Internal auditors are often described as both a business partner and a policemen because of his work as a business partner with client management and also because he acts as an independent reviewer of management. As a business partner, the internal auditor is expected to provide expertise to assist an organisation in meeting its objectives while as a policemen, an internal auditor is often thought of as an adversary looking for flaws. 

2.5 The Role of Internal Auditors 

To look at the current role of internal audit, it is worth looking at the definitions of internal audit by the audit practice board and the institute of internal auditors. 

According to the Audit Practice Board, internal audit is an independent appraisal function established by management for the review of the internal control system as a service to the
organization. It objectively examines, evaluates and reports on the adequacy on internal control as a contribution to the proper economic, efficient and effective use of resources.

The IIA came up with a new definition of internal auditing in 1999, changing the focus of internal audit towards a more risk–based, consultancy type activity and recognizing that internal audit is not always within the organization, but can be an outsource activity. The following are the element of the institute definitions.

- Independence, objectivity assurance, consulting activity.
- Designed to add value and improve organization operations.
- Helps an organization accomplish its objectives.
- Brings a systematic disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

The main role of internal audit according to Turnbull report published in 1999 is normally to evaluate risk and monitor the effectiveness of the system of internal control.

The Turnbull Report identifies the following criteria as the basis of an effective Internal Audit

- Assurance that the management processes are adequate to identify and monitor significant risks
- Confirmation of the effective operation of the established internal control systems
- Credible processes for feedback on risks management and assurance, and
- Objective confirmation that the Board receives the right quality of assurance and information from management and this information is reliable.

In the revised statement of responsibilities of internal auditors issued by the Institute of Internal Auditors (IIA, 2000) as part of the standards framework, the section on objectives states:

The objective of internal auditing according to the IIA is to assist all members of management in the effective discharge of their responsibilities by furnishing them with analyses, appraisals, recommendations and pertinent comments concerning the activities reviewed. The internal auditor is concerned with any phase of business activity where he can
be of service to management. This involves going beyond accounting and financial records to obtain a full understanding of the operations under review.

Sawyer and Vinten (1996) noted four benefits managers have gained from internal auditing assistance. These benefits were providing managers with the bases for judgment and action, helping managers by reporting weaknesses in control and performance and in recommending improvements, providing counsel to managers and boards of directors on the solutions of business problem’s, and supplying information that is timely, reliable and useful to all levels of management. Additionally, the statement sets forth the types of services that should be performed and the kinds of activities carried on by the internal audit function in attaining the overall objective. Internal auditors should first review and appraise the soundness and adequacy of the accounting, financial, and operating controls, and promote effective controls at reasonable cost. Secondly, the internal auditors should ascertain the extent of compliance with established policies, plans, procedures, laws and regulations, which could have a significant impact on the company’s operations. Then the internal auditors review the means of safeguarding assets and when appropriate, verify the existence of such assets and appraise the economy and efficiency with which resources are employed. Lastly, the internal auditors review operations or programs to ascertain whether results are consistent with established objectives and goals and whether the operations or programs are being carried out as planned.

Reviewing and evaluating the adequacy and effectiveness of an organization’s internal control system and the quality of performance in carrying out assigned responsibilities is representative of several primary core activities of internal audit work. The purpose of the review of the adequacy of the internal controls is to ascertain whether the established system provides reasonable assurance that the organization’s objectives and goals will be met efficiently and economically.

Adequate control is considered to be present if administrative management has planned and organized in a manner, which provides reasonable assurance that the organization’s objectives and goals will be achieved efficiently and economically. Reasonable assurance is provided when cost-effective actions are taken to restrict deviations, such as improper or illegal acts, to a tolerable level.

The role of internal auditing in the review of effectiveness of the system of internal control is to ascertain whether the system is functioning as intended. (Fadzil et al, 2005) Effective control is present when the administrative management directs the system in such a way as to provide reasonable assurance that the organization’s objectives and goals will be achieved. According to Fadzil et al, (2005) the purpose of the review for quality of performance is to ascertain whether the organization’s objectives and goals have been achieved.
The primary objectives of an organization’s system of internal control are to provide administrative management with reasonable assurance that financial information is accurate and reliable; the organization complies with policies, plans, procedures, laws, regulations and contract; assets are safeguarded against loss and theft; resources are used economically and efficiently; and established objectives and goals for operations or programs can be met. (Fadzil et al, 2005) Internal auditing focuses on an evaluation of this system or framework of internal control.

A second type of audit work that internal auditors are guided to perform is reviewing the accuracy and reliability of financial and operating information and the means used to identify, measure, classify and report such information. Information systems provide data for decision-making, control, and compliance with external requirement. Therefore, internal auditors should examine information systems and determine whether financial and operating records and reports contain accurate, reliable, timely, complete and useful information, and controls over record keeping and reporting are adequate and effective. (Fadzil et al, 2005)

The performance of reviews of the systems established to ensure compliance with policies, plans, procedures, laws, regulations and contracts represents a third element of audit activity described by the standard. (Fadzil et al, 2005) Administrative management is responsible for establishing the systems designed to ensure compliance with such requirements as laws, rules, regulations, policies and procedures. The internal auditor’s role is to determine whether the systems designed by management are adequate and effective and whether the activities audited are complying with the appropriate requirements (Fadzil et al, 2005).

Further, as described by the standards, the internal auditor’s role includes providing appraisals with recommendations regarding administering management established objectives and goals for operations and programs. (Fadzil et al, 2005)

### 2.6 Critical Elements of Internal Audit

According to the IIA guidelines there are certain elements, which are critical to the setting up and operation of internal audit departments. In chronological manner these elements could be listed as follows: (IIA-UK 1992).

- Where to be placed
- What to do
- How much the department has to do
- When the things have to be done
- Who have to do things?
- How to review
2.6.1 The “where” element

A study conducted by Liu et al. (1997) show that where the department is to be placed in the chain of command or the hierarchical system is a very significant element. This should be the first major question that needs to be addressed in setting up an internal audit department. (Liu et al. 1997). The research shown that, the internal audit department provides service to the organization and therefore the implication is that its effectiveness will rest on the position it is given in the organization both in actual and perceived cases. The research revealed that the traditional view of auditors as being part of the finance or accounting function is now too narrow to be accepted as a definition. This is implied from the fact that, the objectives of internal audits are being increased to cover social, management, operational and ad hoc audits. Consequently, to adhere to only its traditional philosophy is a waste of scarce resources. (Liu et al. 1997).

The department should, therefore, enjoy a high profile from the start. It should be placed high in the organization so that the internal audit staff can audit virtually any functional level for compliance with strategic objectives and liaise with the strategic planning department in relation to possible changes in objectives.

The department has to be linked to the top management, directors and the chief executive.

2.6.2 The “What” Element

It is essential that all levels of staff within the organization know about the functions of the internal audit department and are aware of the terms of reference under which the department has been authorized to operate. (Liu et al. 1997). It is thus important that the audit committee on behalf of the board of directors should draw up an audit charter, detailing the work of the department.

The practice advisories (PA) issued by the Institute of Internal Auditors (IIA) require internal auditors to share observations and recommendations with those charged with oversight responsibilities, typically, the board of directors. Also a charter, internal audit plans, and activity reports are discussed in the advisories.

The PA’s specify that every internal audit department should have a charter. The document validates the unit’s position in the entity, authorizes internal audit access to records, and defines the scope of its work.

The charter should be approved by senior management and accepted by the board. Periodically, the Chief Audit Executive (CAE) should assess whether the charter is still adequate and communicate the assessment to senior management and the board. The CAE
should also submit to senior management and the board a summary of plans of work for the upcoming year.

The summary should be approved by senior management and tendered to the board for informational purposes. Such information helps the board ascertain if the work of internal auditing supports the objectives and plans of the entity.

After completing the work, the internal audit department should present reports of its activities to senior management and the board. Significant engagement observations and recommendations are included in the report and this must be done at least annually.

Below are those items which the PAs suggest might constitute significant engagement observations and therefore, should be communicated to the board.

- Irregularities
- Illegal acts
- Errors
- Waste
- Inefficiencies
- Ineffectiveness
- Conflicts of interest
- Control weaknesses

While it is the internal auditor’s responsibility to report significant engagement observations, it is management’s duty to resolve those issues.

Management may decide to act by implementing recommendations made by the internal auditors or by making other changes.

Alternatively, management may decide not to take action, thereby accepting whatever risk the internal auditors have identified in the current situation. Regardless of which course management chooses, the internal auditor is then responsible for informing the board as to management’s actions or decisions.

The charter should also contain:

a. An outline of the assurance which the board expects to receive. These may include assurance that there is surveillance of internal controls throughout the organization. Also assurance that, the system of internal control is both sound and effective so that the assets are safeguarded and the performance reporting can be accepted with confidence.

b. The authority given to internal audit to examine all activities throughout the organization for the purpose of evaluating internal control. This should specify responsibilities to reassure accountable managers of the adequacy and efficiency of
their internal controls, identifying any unsound commercial procedures to management and offering recommendations for improving performance and preventing future shortcomings. The charter should make clear to management at all levels that internal audit is independent from the operations they audit and that, they are empowered to make changes to systems, methods or staffing.

c. The various types of reviews or audits to be undertaken for e.g. efficiency reviews, environmental audits, and operational audits.

d. The procedures for issuing, and responding to reports from internal audit. The audit report may be dealt with as confidential documents to be delivered to and responded to by the level of management who can take effective action on any recommendations made.

2.6.3 The “How” Element- Audit Scope

The internal audit function is responsible for evaluating and commenting on the effectiveness of risk management, control and corporate governance processes. However, management remains responsible for identifying and management risk, reporting of risk and ensuring that the right policies, procedures and practices are in place.

The amount of work involved in giving assurances under the terms of the charter will need to be estimated. To achieve this, it is necessary to undertake a review of all systems used within the organization. It will require a prior knowledge of business organization and methodology.

To make the assessment worthwhile, it is necessary to carry out an overall review of the whole organization. Each system has to be recorded and evaluated using common terminology wherever possible so that the relevant audit priorities of one system against another can be ascertained. Having drawn a map in this manner then, in order to provide some form of ranking, it is recommended that risk analysis is used whereby various elements of each system can be valued and each system can be compared by total value with all other systems. This is one method by which priorities can be assessed and a full picture of the risk element to which an organization is exposed can be drawn.

2.6.4 The “When” Factor

Audit timing is the most important element in audit planning, according to the (IIA-UK, 1992) guidelines. For every system plotted, it is necessary to allocate the time it is expected the audit will take. If each system is quantified in this manner then the total staff days allocated will be convertible into posts to be filled. Allowances should be made for holidays,
courses and contingencies. In addition to having an indication of the time each audit will take, the exercise described above will also provide an indication as to how frequently an audit should be carried out. If an organization wide system is operating in a number of locations then it is not necessary to review every location on every audit. With limited resources, it will be impossible for all systems to be audited every year. Attention will need to be paid to risks such as exposure to fraud, vulnerability of systems, and changing markets and trade patterns. Some systems will require more frequent reviews than others.

2.6.5 The “Who” Element

Having established the map, the risk analysis and the resource allocation, the audit committee will need to decide on who will carry out the audit plan, the size of the internal audit department and the professional expertise required. The responsibilities of the persons to be appointed include:

a. They should foster constructive working relationships with accountable management and their staff and with the external auditors.

b. They should consider the planning, controlling and recording of their work as important elements of the job so that their work can be easily reviewed.

c. They must exercise due care in the collection and interpretation of their findings and recommendations.

d. They must adopt a professional attitude and ethical standards at all times. The chief internal auditor should be responsible for details of the duties of staff but all staff should be made to apply a sound understanding of internal audit techniques to a through understanding of the organization and its systems of internal control involving all activities. To maximize the benefit to the organization, staff should agree with accountable management the program and timing of audits and identify, assess and rank the risk involved in all systems. Of paramount importance is the internal auditors ability to evaluate the adequacy and effectiveness of the system of internal control, to carry out all necessary tests and report their findings promptly and objectively.

If an organization is able to adjust its audit plan, thereby reducing the levels of audit work, a smaller staff may be a reasonable strategy. However, with the trend being towards increased fraud prevention and detection, increased audit activities and increased reliance on internal auditors, a reduced, workload may not be realistic.

In addition, if staff are not competent no matter how reduced the audit work is, more staff or time will be required.
The internal auditor should cultivate a close working relationship with top management. This will call for developing a management perspective, understanding how management has developed its long-term strategies and how it hopes to implement them. Staff training should alert the audit staff to improvements that could be made in specific areas such as sales and customer communication process.

Finding new and improved motivational strategies that encourage increase productivity from the staff should be a high priority. One of the keys to improving the performance of the internal audit is to identify items that have the greatest potential to operate as positive. These re-enforcers include: feedback, self-fulfillment, self-esteem and creativity and participation in goal setting. It will be a good idea to make the management and staff aware of the potential benefits that a successful internal audit department could bring.

2.6.6 How to Review

It is necessary to keep the whole programme of audit under review so as to react to any unforeseen risks which may be discovered. Each completed audit will provide an opportunity to review the overall program and assist in the increased utilization of internal audit resources while maintaining a high level of service to management. It is recommended that, there should be a procedure to ensure that all work is carried out to a set standard but, in addition, it is essential that there is a procedure to ensure that standards are maintained in line with the best professional practice.

The PA’s indicate that, the CAE should annually prepare a summary of the planned work and staffing requirements as well as a budget. Senior management should give approval to this overall plan for informational purposes. The board should be presented with a summary of the plan. The plan should be detailed enough to allow the board to ascertain if the work of internal audit bolsters the objectives of the entity and the board. As the internal auditors perform engagements during the year, they may encounter scope limitations. Such restrictions arise when the internal audit activity is prevented from carrying out its plans and meeting its objectives. The board should be informed, preferably in writing of these challenges and their possible impact.

2.7 Coordination with other Auditors.

The PA’s mandates that, the chief internal auditor evaluates the coordination of the two sets of auditors and then communicates the assessment to senior management and the board. Also the chief internal auditor may choose to communicate regarding the performance of the external auditor.
The internal audit standard goes on to indicate that, the internal auditor should anticipate that, the external auditor would communicate with the board regarding various issues. The internal auditor is advised to be prepared by having an understanding of the topics. (Colbert L. Janet 2002)

2.8 Means of Achieving Internal Control

Internal control varies significantly from one organisation to the next, depending on such factors as their size, nature of operations, and objectives. The internal auditor must be interested in the effective performance of the internal control system. According to COSO certain features are essential to satisfactory internal control in almost any large-scale organisation. Internal control of an organization includes five components according to COSO

(1) control environment;
(2) risk assessment;
(3) control activities;
(4) information and communication; and
(5) monitoring.

According to COSO, Management should take into consideration the five components of an adequate and effective internal control defined in the COSO report. These interrelated components of internal control must be present and functioning properly in order to have an adequate and effective internal control system.( Zabihollah Rezaee,1995)

The control environment

The control environment sets the tone of an organization by influencing the control consciousness of people. It may be viewed as the foundation for the other components of internal control. The control environment consists of a number of elements such as integrity and ethical values, management’s philosophy and operating style, organization structure, human resource policies and practices, the board of directors and audit committee’s involvement, competence of personnel, and assignment of authority and responsibility designed to provide a positive control consciousness within the entity. (Zabihollah Rezaee, 1995). The effectiveness of internal control depends directly upon the communication and enforcement of integrity and ethical values of the personnel who are responsible for creating, administrating, and monitoring controls. Management should establish behavioral and ethical standards that discourage employees from engaging in acts that would be considered dishonest, unethical, or illegal. To be effective, these standards must be effectively
communicated by appropriate means, including by official policies, code of conduct, and example.

Another way to reduce the incidence of improper behavior is to remove or reduce the incentive and temptations to engage in such behavior. For example, fraudulent financial reporting has often resulted from situations in which employees were placed under undue pressure to meet unrealistic performance goals. Inappropriate actions have been found to be more likely when management’s compensation is heavily tied to the company’s reported income. Increased temptation to commit improper acts may result from inadequate or ineffective controls, such as a lack of segregation of duties, or a board of directors that does not provide objective oversight of top management.

Employees should possess the skills and knowledge essential to the performance of their job. If employees are lacking in skills or knowledge, they may be ineffective in performing their assigned duties. This is especially critical when the employees are involved in performing controls. Ideally, management should be committed to hiring employees with appropriate levels of education and experience, and providing them with adequate supervision and training. The control environment provides a basis to evaluate the adequacy and effectiveness of internal control systems and assess an entity’s ability to ensure responsible corporate governance and reliable financial reporting. The control environment serves as the foundation for the other components. (Zabihollah Rezaee, 1995)

**Risk assessment**

According to Zabihollah Rezaee,(1995) Risk assessment requires identification and investigation of both internal and external risks and acceptance of prudent business risk in achieving an entity’s objectives. Risk assessment assists management and internal auditors to be in control. Being in control requires sustaining the ability to identify, understand and react in a timely manner to events, conditions, challenges, opportunities and risks pertaining to the entity’s operational, financial reporting, and compliance objectives. The risk assessment process involves determining the significance of the risk in monetary terms or in terms of the image or reputation of the entity, the probability of risk occurring, and how to mitigate the impacts of the risk to reduce exposures to acceptable levels.( Zabihollah Rezaee,1995) The COSO report assists management and internal auditors to establish an ongoing process of identifying changes in an entity’s business environment and to take actions as necessary to manage risk.

**Control activities**
Control activities are the policies, procedures, and rules that provide reasonable assurance that internal control objectives are carried out properly and risks are being managed effectively. According to Zabihollah Rezaee, (1995) These overlapping control activities are divided into three categories of operating controls, financial information controls, and compliance controls. Operating control activities are directed towards managing and monitoring the entity’s operations. Financial information control activities are aimed at ensuring reliable financial reporting process and safeguarding the entity’s assets. Compliance control activities are geared towards ensuring compliance with applicable laws and regulations as well as adherence to ethical guidelines and conduct.

**Information and communication**

The information and communication components of internal control consider information captured and how messages flow through an entity. All people in the entity should receive a clear message from top management that internal control responsibilities must be taken seriously. Personnel affected by an internal control system should clearly understand the relevant aspect of the internal control systems, how they work, and their role and responsibility in the system. In particular, management’s expectations of individuals and their commitment to a sound and effective internal control system need to be communicated. Communication should flow in all directions in an organization’s internal control function – up, down, and across – in communicating all relevant internal and external information. (Zabihollah Rezaee, 1995)

**Monitoring**

The monitoring component requires that internal control systems be monitored on both an ongoing and periodic basis to remain effective. Ongoing monitoring is a continuous assessment of various components of the internal control system through proper training and evaluation of personnel, continuous supervision, and implementation of recommendations provided by auditors. Periodic evaluation can supplement ongoing monitoring and should be used on an ad hoc basis. The frequency and scope of periodic evaluation depend on the effectiveness and results of ongoing monitoring as well as the assessment of risks associated with the internal control system. (Zabihollah Rezaee, 1995)

The function of establishing criteria against which the internal control system is monitored and evaluated is primarily management’s responsibility according to Zabihollah Rezaee, 1995 deficiencies should be identified through monitoring procedures, be reported to the individual responsible for the function for corrective actions and to one level of management.
above the directly responsible person who has oversight responsibility to ensure that corrective actions are being taken. Most importantly, internal auditors are responsible for reporting serious internal control deficiencies directly to top management, the board of directors, and audit committees.

2.8.1 Board of Directors or Audit Committee

The control environment of an organization is significantly influenced by the effectiveness of its board of directors or the audit committee. It was more than a decade ago when an increasing number of stakeholders began to suggest that instances of fraudulent financial reporting could be decreased by improving the effectiveness of audit committees (NCFFR, 1987; POB, 1993). A common thread that runs through suggestions from these different sources is that audit committees need to assume greater responsibility with respect to corporate governance by overseeing financial reporting and internal control matters (Myers, and Ziegenfuss, 2006). Factors that bear on the effectiveness of the board or audit committee include the extent of its independence from management, the experience and stature of its members, the extent to which it raises and pursues difficult questions with management, and its interaction with the internal and external auditors.

Beginning with the 1999 Blue Ribbon Committee on Improving the Effectiveness of Corporate Audit Committees (BRC), more formalized approaches were taken to develop and publish explicit recommendations that audit committees could address to improve their effectiveness (Myers, and Ziegenfuss, 2006). The audit committee of the board of directors should be composed of independent directors who are not officers or employees of the organization and do not have other relationships that impair independence. Corporate governance codes in most countries typically require that internal auditors report functionally to the audit committee of their company’s board of directors. (Ahmad and Taylor, 2009). This enables the audit committee to be effective at overseeing the quality of the organization’s financial reports, and at acting as a deterrent to management override of controls and to management fraud.

The audit committee must establish procedures for receiving, retaining and treating complaints about accounting, internal control, or auditing matters and for the confidential, anonymous submission by employees of their concerns about questionable accounting or auditing matters. The audit committee must have authority to engage independent counsel and other advisors as the committee determines necessary to carry out its duties. According to Myers, and Ziegenfuss (2006) Audit committees need to assume greater responsibility with
respect to corporate governance by overseeing financial reporting and internal control matters.

The company must provide appropriate funding, as determined by the audit committee, for the compensation of (i) the audit work and any related work of the company’s independent auditor (ii) any other audit, review or attest services provided to the company by a public accounting firm and (iii) any advisors engaged by the audit committee. The Act requires of every reporting company that the audit committee approve all audit services. Additionally, the audit committee must approve all permitted non-audit services to be provided by the auditor or its associated person before the services are provided.

2.8.2 Authority and Responsibility
The duty of internal auditors clearly requires them to be independent. The essential element that must be possessed to achieve independence is for internal auditors to have appropriate level of authority and to be certain of their authority. Without having certainty of their authority or if they do not enjoy a clear level of authority internal auditors may not be in a position to counter management pressure (Peursem, 2004)
The audit committee must have authority over and be ‘directly responsible’ for hiring, compensating and retaining the company’s independent auditor and for overseeing the work of the auditor in preparing or issuing any audit report, including resolving any disagreement between management and the auditor about financial reporting.

2.8.3 Organisational Structure
Another control environment factor in the COSO report is the entity’s organizational structure. A well designed structure provides a basis for planning, directing, and controlling operations. It divides authority, responsibilities, and duties among members of an organization by dealing with such issues as centralized versus decentralized decision making and appropriate segregation of duties among the various departments. When management decision-making is centralized and dominated by one individual, that individual’s abilities and moral character are extremely important to the auditors. When a decentralized style is used, procedures to monitor the decision making of the many managers involved become equally important.
The organisational structure of an entity should separate responsibilities for (1) authorization of transactions, (2) record keeping for transactions, and (3) custody of assets. In addition, to the extent possible, execution of the transaction should be segregated from these other responsibilities. The effectiveness of such structure is usually obtained by having designated
department heads that are evaluated on the basis of the performance of their respective departments.

2.9 Challenges for Internal Audit

Internal audit should be an independence and objective function. However, this independence can be compromised, particularly where reporting lines are through operational areas which they bare required to review and report on. The ability to function with independence has been a long-standing challenge to internal auditors and their profession – a challenge that has received renewed attention due to the rise of corporate governance. (Ahmad and Taylor, 2009). The fundamental positioning of the role of internal auditors, it is contended, creates a challenge to their ability to function with independence. For instance, the role of internal auditors in providing audit oversight for their organization together with consulting services to management can cause an ongoing conflict. In their audit role, internal auditors must remain independent of management by not subordinating their judgment to management in audit matters. But in their consultative role, they must collaborate with and support management, including accepting the judgment of the audit committee of the board of directors. (Ahmad and Taylor, 2009). Studies have suggested that the incompatibility between the internal auditor’s “audit oversight role” and “advisory role” is subject to conflict (Reynold, 2000; Cooper and Craig, 1983).

According to Marco et al. (2006) the relationship with the audit committee and board of directors needs to be reinforced and the assurance provided by internal audit should become the best independent and objective assessment in terms of risk management, internal controls and corporate governance. The activities of internal audit will be adapted to the new requirements and evolve with the new legislation and the new challenges of the organization according to the study conducted by Marco et al. (2006). The profile of the internal auditor is evolving in order to meet the broader scope of activities. The profession still needs to become more recognized within the company. The literature indicates changes in the activities performed by internal auditors. The increasing complexity of business transactions, a more dynamic regulator environment and significant advances in information technology, are developments that have resulted in opportunities and challenges for internal auditors.
2.10 Conclusion

The literature reviewed above, espousing and understanding the core aspects of internal auditing and the work done on these aspects provide very valuable insights for the assessment of the Audit department of Star Assurance Company Ltd. Some of the valuable insights the literature review has given for the forthcoming analysis are as follows:

The functions of internal audit, Objective of internal audit, the ethical guideline of Internal audit, the role of internal audit, the critical elements of internal audit, the means of achieving control which highlighted the control components in the COSO report and the challenges of internal audit.
CHAPTER 3

3.0 BRIEF PROFILE OF STAR ASSURANCE COMPANY LTD

3.1 Introduction

Star Assurance Company Limited is a fast growing and considered to be a well managed insurance company in Ghana offering competitive insurance products comprising general insurance business; namely, motor and non-motor insurance services to the insuring public. Star Assurance Company Limited was incorporated in August 1984 and is licensed under the Insurance Law, 1989 (PNDCL 227) to carry on composite insurance business in Ghana. It commenced business in April 1985. The company has its head office in Accra, with nine (9) branch offices in seven (7) of the country’s ten (10) administrative regions, namely, Greater Accra, Ashanti, Eastern, Western, Volta, Brong Ahafo and Northern regions. Agency offices service the remaining three (3) regions. The company’s head office is located on plot No. C551/4 Cola Street, Kokomlemle Accra, Ghana.

The Company was the brain child of a then young, looking economist and a banker, Dr. Kwabena Duffuor who by dint of hard work was appointed to the high office of the governor of Bank of Ghana in 1997 and now the Finance Minister. (www.starassurance.com)

The company was awarded “Best Insurance Company of the Year, 2001” by the Chartered Institute of Marketing, Ghana (CIMG). The company has also been rate “A” by Global credit rating. This rating means that the company has a high claim paying ability. In March 2005, Star Assurance Company Limited was adjudged the best company in the insurance category of the INDUTECH 2005 National Awards. (www.starassurance.com)

Star Assurance Company Limited is a member of “Ghana Club 100” – a group of the top 100 companies in Ghana.

3.2 Vision and Corporate Mission

The vision of the company is to be a leading Ghanaian insurance company with sustained world-class performance in the provision of financial security products (www.starassurance.com).

The company has as its mission to be a leading provider of financial security products through excellent customer service, professionalism and innovation (www.starassurance.com)
3.3 Core Values

The core values of Star Assurance Company Limited flow from their mission statement and the guiding principles which govern decisions and define the manner in which day-to-day business is conducted.

The values are:

**Professionalism**: The Company applies deep skills and expertise and broad capabilities to consistently deliver reliable service to our customers and ensure their needs are met. (www.starassurance.com)

**Innovation**: The Company is dedicated to continually improving their products, operations and performance in order to deliver innovative solutions and extraordinary service to exceed the highest expectations of our customers. (www.starassurance.com)

**Teamwork**: The Company builds mutually beneficial relationships among staff, agents, brokers, and other partners who share similar values and work in tandem to achieve high performance, excellence and superior business results. (www.starassurance.com)

**Ownership**: Enterprise culture is the philosophy through which the management and staff develop a high sense of ownership by consistently making decisions in the best interest of the company and its customers. Commitment is renewed by linking pay to performance. (www.starassurance.com)

**Winning Spirit**: The Company is action-oriented, constantly striving to deliver results create possibilities and build a brighter future for all stakeholders. (www.starassurance.com)

3.4 Organisational Structure

The organizational structure of the company has in order of authority and oversight responsibilities the Board of Directors at the top, followed by the Executive Management Team, Departmental Heads, and Unit Head.

**Board of Directors**

The Company has nine experienced Board of Directors:

**3.5 Executive Management Team**

The company has a five member management team made-up of the Managing Director, the Deputy Managing Director, the Executive Director, the General Manager (Finance and Administration) and Deputy chief Manager(Technical operation); whose expertise include
Insurance management, business development, marketing, insurance, accounting and many years of working experience.

3.6. Operations

The operations of Star Assurance are geared towards improved service delivery for our mutual benefit. The Company has established a Business Information Communication Technology Team comprising among other professionals, six (6) qualified Insurance Professionals which has taken ownership of the critical service areas of the company’s operations. In addition, the company is taking advantages of opportunities in the new insurance law especially that relating to the Compulsory Fire and Liability policies for all commercial concerns. The company has also strategically placed itself for insurances on the oil discovered and the West African Pipeline Project.

The Work Group Concept

Previously the company’s operations were segmented along product lines i.e. Motor and Non-Motor. This posed a challenge for clients in that they had to meet different sets of people in different departments in order to effect their insurances and process their claims. The work Group concept seeks to segment operations in the way that customers see. The company’s operations have been segmented along the following workgroups:

a. Broker Relations Unit: Corporate and Retail businesses sourced from brokers.

b. Corporate Relations Unit: Corporate Insurances directly placed with the company or through agents

c. Retail and SMEs Relations Unit: Individual clients and Small-to-Medium Enterprises who insure directly with the company or place through agents

This work group system has been vital in helping the company obtain competitive advantage in the industry by allowing the company to provide “a one stop shop” to their various categories of clients. These work groups have been empowered and given authority limits in business from prospecting, underwriting, client servicing, reinsurance placement, credit control, commission payments and claims administration. Each of these categories has its peculiar marketing and sales approach. It allows certain clients who hitherto went unnoticed to be clearly visible and most importantly catered for.
3.7 **Insurance Products**

Star Assurance offers a wide range of general insurance products. These include: Travel Insurance, Marine, (Cargo and Hull), Personal Accident, Bankers Indemnity Policy, Motor Insurance, Erection All Risks, Fire and Allied Perils, House owners’ Comprehensive etc.
The figure above shows the organogram of Star Assurance Company Ltd. The figure above shows that the internal audit department is independent.
CHAPTER 4

4.0 THE METHODOLOGY OF THE STUDY

4.1 Introduction to the Methodology of the study

This chapter discussed how data was gathered, analysed, and interpreted to explain the relationships between the various variables in relation to the objectives of the research paper. The researcher used a case study to explain the relationship between the variables: the case of the internal audit department of Star Assurance Company. The researcher employed both primary and secondary data, qualitative and quantitative research methods were also used to examine the internal audit department of Star Assurance Company Ltd. A number of data collection methods were combined to verify the reliability and accuracy of the data as suggested by Yin(2003). The study used a combination of data collection tools; a Survey, Questionnaire, Relevant Corporate Documents and Observation.

4.2 Sources of Data

The sources of data for the study were mainly primary and secondary. The primary sources employed questionnaire, and observation to record data. The Secondary sources include, company archives, auditing reports, company website (www.starassurance.com) and company auditing framework or regulation.

4.3 Data Collection Tools

The data collection tools for the study were Questionnaires, Observations and Relevant Corporate Documents.

4.3.1 Questionnaire

Table 4.1- Analysis of questionnaire administered

<table>
<thead>
<tr>
<th>Respondents</th>
<th>Number of Questionnaire administered</th>
<th>Number of Questionnaire received</th>
<th>Response rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Audit Staff</td>
<td>3</td>
<td>3</td>
<td>100%</td>
</tr>
<tr>
<td>Non-Audit staff</td>
<td>5</td>
<td>5</td>
<td>100%</td>
</tr>
</tbody>
</table>
Table 4.1 shows the number of questionnaire administered and received and the category of people the questionnaire were given. Two sets of questionnaires were designed; one for the Internal Audit department staff and the other for non-audit staff whose activities the internal auditors audit. That for the Internal Audit staff was in two sections (A-B). Section A was to help find response on what to do element. Section B was to help find responses on the “how” element: Audit scope. Thus, how much the department had to do. Each section was separately designed to solicit responses to arrive at the first objective of the study which is to critically evaluate the internal audit department of organisations and their compliance with critical elements of internal audit operations as outlined by IIA. Thus these questionnaires helped the researcher got information that helped him to critically evaluate the internal audit department of the case company: Star Assurance Company Ltd. and its compliance with critical elements of internal audit operations as outlined by IIA.

On the other hand, that for the non Audit staff involves an array of questionnaires that were administered to some heads of department and branch managers of Star Assurance Company Ltd. to obtain information on internal auditing practices in the Company.

That for the non-audit staff was in four sections (A-D). Section A contained the personal details of respondents. Section B was to help find responses on the “what to do” element, Section C was to help find responses on the “how” element: audit scope. Thus, how much the department had to do. Section D was to help find responses on the “when” factor. Each section was separately designed to solicit responses to arrive at the second objective of the study which is to identify short-comings or weakness in the Internal Auditing practices of the Auditing Department of organisations if any. The information that the researcher obtained from the heads of department and branch manager’s response whose activities the internal auditor audit helped him to identify short-comings or weakness in the Internal Auditing practices of the Audit Department of the case company: Star Assurance Company Ltd.

Questionnaires require careful design to ensure that key issues are included, whilst avoiding ambiguous or confusing questions.

The questionnaire blended open-ended and closed questions to solicit information from the respondents. This approach sought respondents’ creative input.

Questions were also kept as short as possible to make them easy to answer.

The questionnaire was pre-tested with some respondents. The aim was to access the efficacy of the items on the questionnaire and to allow for the possibility of rectification and adjustment, if required to help arrive at the objectives of the study. After the pre-test, minor changes were made to the final questionnaire where appropriate in order to enhance the quality of the research.
The final questionnaires have been attached (appendix 1 and 2)

**Response rate**

Table 4.1 shows that the total numbers of questionnaires administered are eight (8). Three (3) questionnaires were administered to the audit staff and three (3) were received which represent 100% response rate. Five (5) questionnaires were administered to the other employee and five (5) were received and this represent 100% response rate.

**Sampling Unit**

The study covered the internal audit department of Star Assurance Company Ltd as well as the other employees of the company who were in a position to give the appropriate information the researcher needed.

**Sample selection**

The questionnaires for the audit staff were administered to all the staff of the internal audit department.

The questionnaires for the non-Audit staff were administered to five heads of departments and branch managers who were randomly selected.

**4.3.2 Observation**

Observation gives first-hand information regarding the subject understudy. The internal audit department of Star Assurance Company was visited to observe and witness what they do and how they are doing it based on my knowledge of the internal auditing requirements and procedures.

Permission was sort from the Head of Internal audit department through the Human Resource. A date and time was schedule. Much information was obtained from the visit. Some of the information obtained includes the procedure for auditing which involve entry audit conference with the department and post audit conference after auditing work is complete. The procedure for writing audit report after each audit was also observed.

Information about the types of audit done in the department was given. These are: pre audit which involves the auditing of all source documents like invoices, receipt, and payment vouchers. Post auditing which involve auditing of the financial statements and final accounts. Operational auditing which involve auditing of the operational activities of the various branches nationwide. With the operational auditing, the physical presents of the internal auditors are required. The visit also helped the researcher to observe the structure of the internal audit department of Star Assurance Company.
These first-hand information complemented the data collected through questionnaires and confirm declarations made in the questionnaires to engender effective measurement of compliance level.

4.3.3 Relevant Corporate Documents
As suggested by McClintock, Brannon, and Maynard-Moody (1979) and Yin (2003) company’s documents are sources of evidence for case study research and the primary source of data in qualitative research. Records of operations, auditors reports, reports from branch managers and heads of departments, company’s quarterly or annual report, internal newsletter and similar studies conducted will serve as sources of data for the study. Additional information will be collected from the website of the company: www.starassurance.com. Data from these documents will be checked systematically against and compared with results from the questionnaires survey and data collected from the other means. This multi-method strategy will be used to ensure consistency, accuracy and to avoid bias. The knowledge that will be obtained will be the level of compliance.

4.4 Data Analysis and Presentation
Data collection and data analysis are concomitant activities (Marshall and Rossman, 1999; Yin, 2003). Data analysis pertains to ‘examining, categorizing, tabulating, testing or otherwise recombining both quantitative and qualitative evidence’ (Yin, 2003) to address the research question(s). Data collected was transformed into various indicators and scores that are reflective of the various variables.. Excel was used in the computation of responses from the respondents. SPSS Analysis was then used to analyse and interpret the relationships between the variables. The findings were then presented in a clear and concise manner.

4.5 Limitations of the Study
The research was limited to Star Assurance Company Ltd. which is an unlisted company. The researcher was constrained by time and financial resources and could not therefore apply other methods of research aside Questionnaire, Relevant Corporate Documents and Observation.

As with all surveys, a further limitation is that the results rely on the self-reports of respondents and are therefore open to misinterpretation of the questions as well as to subjectivity in the responses. Questionnaires require careful design, for example, to ensure that key issues are included, whilst avoiding ambiguous or confusing questions. Bias may arise from poor sampling or if respondents feel that they should give a ‘correct’ reply rather
than their real view. Poor response may also lead to problems of non-response bias or inadequate numbers for valid statistical analysis.

4.6 Safeguards
In this study, the problems raised above were addressed by:
1. Designing questionnaires that would be quick and simple to complete (appendix A) page. This was meant to encourage more respondents to respond.
2. Reviewing the questionnaire with an expert prior to use. This provided the confidence that the questionnaire was of a high standard.
3. Offering the respondents the opportunity to request a summary of the results. This action was meant to encourage them to feel part of the project.
4. Assuring the respondents of confidentiality. This action was to encourage them to provide information as truthfully as possible.
5. Distributing questionnaire to the entire relevant population, thus avoiding potential sampling bias.
CHAPTER 5

5.0 EMPIRICAL FINDINGS, ANALYSIS AND INTERPRETATION

5.1 Introduction

This chapter discusses the findings, analysis and interpretation of the study. With the objectives of obtaining meaningful insight, this study conducted structured interviews with the staff of the Internal Audit department of Star Assurance Company Limited which addressed the following four areas of interest.

• Where to be placed: Organizational structure-how is the internal audit department positioned, perceived and evaluated.
• What to do: How much the department has to do
• When the things have to be done
• Who have to do things

The remainder of this section provides a summary of the responses provided by the respondents to the question along with some general comments. The following issues were discussed in detail as follows:

5.2 Analysis of Functions of Internal Audit
5.3 Analysis Objectives of Internal Audit
5.4 Analysis of Ethical Guidelines
5.5 Analysis of Control Environment

5.2 Analysis of Functions of Internal Audit

My research revealed that Star Assurance Company Limited has an internal audit department, which could be said to be auditing its activities in accordance with the definition as specified by the I.I.A. Some of the functions identified include but not limited to the following.

Ensuring that risk are appropriately identified and managed
Ensuring that controls are effective and reviewed for continuous improvement
Ensuring that all stake holders comply with internal control policies, procedures and applicable laws and regulations and government standard
Ensuring that resources are acquired economically and used efficiently and adequately protected
Ensure that fraud is identified, investigated and timely reported.
One of the main duties of the internal auditors is to provide assistance in the deterrence of fraud through examining and evaluating the adequacy and effectiveness of the system of the internal control to commensurate the extent of potential exposure or risk in the various segments of the organization’s operations (ISPPIA, 2006). My research revealed that Star Assurance internal audit department is doing well in this direction. The department has been able to detect so many frauds and recommended measures that are deterrence of fraud. For example, one of the audits discovered fraudulent activities at the Tarkoradi branch office which led to the dismissal of the branch manager.

5.3 Analysis of Objectives of Internal Audit
It was observed that the Internal Audit department assisted management in the discharge of their responsibilities by furnishing them with analysis, recommendations and pertinent comments concerning activities of the company, e.g. the Internal Audit department was involved in assessment and review of the activities of all branches and departments.

5.4 Analysis of Ethical Guidelines
5.4.1 Independence
It was observed that the department was independent of the operational activities of the company. The department was not directly involved in the set up of systems which it had to review later. For example, the organogram of the company shows that, the internal audit department reports to the board and for that matter independent of the operations of the company.

5.4.2 Organisational Status/Where To Be Placed
This section addressed the position of the internal audit department with respect to the organisational structure of the company. The Head of the Internal Audit department is on a managerial grade and reports directly to the Board of Directors. This situation allows for effective operation and independence of the department.

It was reported that, the internal auditor had direct access to the management. According to the organogram it was observed that the internal auditor reports directly to the Board Chairman. The internal auditor was in a high management position and could therefore audit any department.
5.4.3 Objectivity/ The “What” Element

Table 5.1 - Analysis of the what element- Audit staff response

<table>
<thead>
<tr>
<th>Question</th>
<th>No. of YES</th>
<th>No. of NO</th>
<th>Total Response</th>
</tr>
</thead>
<tbody>
<tr>
<td>Are you aware of the internal audit charter?</td>
<td>3</td>
<td>0</td>
<td>3</td>
</tr>
<tr>
<td>Are you aware of the duties of the internal audit department?</td>
<td>3</td>
<td>0</td>
<td>3</td>
</tr>
<tr>
<td>Has the internal audit department put in place any internal control mechanism?</td>
<td>3</td>
<td>0</td>
<td>3</td>
</tr>
<tr>
<td>Do you think the internal control measures will safeguard the assets of the company?</td>
<td>3</td>
<td>0</td>
<td>3</td>
</tr>
<tr>
<td>Are recommendations from internal audit department implemented?</td>
<td>3</td>
<td>0</td>
<td>3</td>
</tr>
</tbody>
</table>

Table 5.1 shows the responses from the audit staff from the questionnaire administered with regards to the “what” element of the critical elements of the internal audit.

Table 5.2 - Analysis of What element -Non Audit staff response

<table>
<thead>
<tr>
<th>Question</th>
<th>No. of YES</th>
<th>No. of NO</th>
<th>Total Response</th>
</tr>
</thead>
<tbody>
<tr>
<td>Are you aware of the duties of the internal audit department?</td>
<td>4</td>
<td>1</td>
<td>5</td>
</tr>
<tr>
<td>Are you aware of the internal control mechanisms put in place by the internal audit department?</td>
<td>5</td>
<td>0</td>
<td>5</td>
</tr>
<tr>
<td>Do you think the internal control measures will safeguard the assets of the company?</td>
<td>5</td>
<td>0</td>
<td>5</td>
</tr>
<tr>
<td>Are recommendations from internal audit implemented?</td>
<td>5</td>
<td>0</td>
<td>5</td>
</tr>
</tbody>
</table>

Table 5.2 shows the responses from the non audit staff from the questionnaire administered with regards to the “what” element of the critical elements of the internal audit.

The study shows that the internal audit department is objective. It was observed that the Head of Internal Audit is not part of management and so is not part of decision making of the company. Table 5.1 shows that the audit staffs were aware of the duties of the internal audit department. It was observed that most of the staff within the organisation understood the
function of the internal audit department. The internal audit department is said to have put in place some internal control mechanism and the study shows that these internal control mechanisms were safeguarding the assets of the company. Table 5.2 shows that all respondents were aware of the internal control mechanism put in place by the audit department and they think the controls were safeguarding the assets of the company greatly. My investigation revealed that, there was audit charter in place. Table 5.1 and 5.2 showed that internal audit recommendations were implemented. It was also observed that the internal auditor presents its report to management and the board and management acted on the recommendations.

5.4.4 The “How” Element – Audit Scope

Table 5.3 - Analysis of Audit scope- responses from audit staff

<table>
<thead>
<tr>
<th>Question</th>
<th>NO. of YES</th>
<th>No. of NO</th>
<th>Total Response</th>
</tr>
</thead>
<tbody>
<tr>
<td>As an internal Auditor do you understand the processes and procedures of the departments you audit?</td>
<td>3</td>
<td>0</td>
<td>3</td>
</tr>
<tr>
<td>Do you think the internal audit staff adopts professional and ethical standards at all times?</td>
<td>3</td>
<td>0</td>
<td>3</td>
</tr>
<tr>
<td>Do you have sufficient access to information, records, people in the company in performing your audit work?</td>
<td>3</td>
<td>0</td>
<td>3</td>
</tr>
<tr>
<td>Do you think the internal audit staff fosters constructive working relationship with accountable management?</td>
<td>3</td>
<td>0</td>
<td>3</td>
</tr>
<tr>
<td>As an internal Auditor, do you feel protected</td>
<td>3</td>
<td>0</td>
<td>3</td>
</tr>
</tbody>
</table>

Table 5.3 shows the responses from the audit staff from the questionnaire administered with regards to the “how” element of the critical elements of the internal audit.
Table 5.4 - Analysis of audit scope- Response from Non-Audit Staff

<table>
<thead>
<tr>
<th>Question</th>
<th>No. Of YES</th>
<th>No. Of NO</th>
<th>Total Response</th>
</tr>
</thead>
<tbody>
<tr>
<td>Do you think the internal audit department understands the processes and procedures of your department for effective auditing?</td>
<td>5</td>
<td>0</td>
<td>5</td>
</tr>
<tr>
<td>Do you think the internal audit department has sufficient access to information, records people in the company in performing their duties?</td>
<td>5</td>
<td>0</td>
<td>5</td>
</tr>
<tr>
<td>Do you think the internal audit staff adopts professional and ethical standards all the times?</td>
<td>5</td>
<td>0</td>
<td>5</td>
</tr>
<tr>
<td>Do you think the internal audit staff fosters constructive working relationship with accountable management?</td>
<td>5</td>
<td>0</td>
<td>5</td>
</tr>
</tbody>
</table>

Table 5.4 shows the responses from the non-audit staff from the questionnaire administered with regards to the audit scope.

Table 5.5 - Rating of Audit performance by non-Audit Staff

<table>
<thead>
<tr>
<th>Question</th>
<th>Below Average</th>
<th>Average</th>
<th>Above Average</th>
<th>Excellent</th>
<th>Total Response</th>
</tr>
</thead>
<tbody>
<tr>
<td>How will you rate the performance of the internal audit department?</td>
<td>0</td>
<td>0</td>
<td>3</td>
<td>2</td>
<td>5</td>
</tr>
</tbody>
</table>

Table 5.5 shows how the audit department is rated by the employees. The employees were asked to rate the performance of the audit department. This enabled the researcher to see how the employees perceived the audit department and their performance.

It was observed that the internal audit team had good knowledge of the business operations. All the non-Audit staff respondents admitted that the internal audit department understands the processes and procedures of their department and that they adopt professional and ethical standards all the times in performance of their duties. For this reason, 60% of the respondent
rated the performance of the audit department as “above average” and 40% rated them as “excellent” as shown in table 5.5. It was also clear that the internal audit staffs foster constructive working relationship with accountable management. The scope of the audit work covers all the departments and branches of the company nationwide. The study also shows that the internal audit department has sufficient access to information, records people in the company in performing their duties. The study shows that the auditors feel protected in performing their duties. There was no record of the review of the systems.

5.4.5 The ‘When’ Factor

Table 5.6 - analysis of when factor- response from Audit staff

<table>
<thead>
<tr>
<th>Question</th>
<th>No. of YES</th>
<th>No. of NO</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>As of 31st December 2008 is there any branch or department which has not been audited in the past 4 years</td>
<td>0</td>
<td>3</td>
<td>3</td>
</tr>
</tbody>
</table>

Table 5.6 shows the responses from the audit staff from the questionnaire administered with regards to the “when” element of the critical elements of the internal audit. According to the table, all branches and departments have been audit in the past 4 years

Table 5.7 – analysis of the rate of auditing

<table>
<thead>
<tr>
<th>QUESTION</th>
<th>ONCE A YEAR</th>
<th>TWICE A YEAR</th>
<th>THRICE A YEAR</th>
<th>OTHERS</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>How often do you audit the branches/departments</td>
<td>3</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>3</td>
</tr>
</tbody>
</table>

Table 5.7 shows the responses from the audit staff from the questionnaire administered with regards to the rate of auditing of the various branches and department. According to table 5.7 every branch or department is audited once a year

Table 5.8- analysis of when factor- Response from Non-audit staff

<table>
<thead>
<tr>
<th>Question</th>
<th>No. of YES</th>
<th>No. of NO</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Are you aware of the audit plan for your department?</td>
<td>1</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>Has your department/branch been audited before?</td>
<td>5</td>
<td>0</td>
<td>5</td>
</tr>
</tbody>
</table>
Table 5.8 shows the responses from the non-audit staff from the questionnaire administered with regards to the “when” element of the critical elements of the internal audit.

Table 5.9 - Audit plan for 2008

**PROPOSED SCHEDULE OF INTERNAL AUDIT ACTIVITIES-2008**

<table>
<thead>
<tr>
<th>DATE</th>
<th>ACTIVITY</th>
<th>BRANCH</th>
</tr>
</thead>
<tbody>
<tr>
<td>13/01/08-31/01/08</td>
<td>RRC Branch Audit</td>
<td>RRC</td>
</tr>
<tr>
<td>11/02/08-29/02/08</td>
<td>Tudu Branch Audit</td>
<td>Tudu</td>
</tr>
<tr>
<td>09/03/08-22/03/08</td>
<td>Kumasi Branch Audit</td>
<td>Kumasi</td>
</tr>
<tr>
<td>13/04/08-19/04/08</td>
<td>Koforidua Branch Audit</td>
<td>Koforidua</td>
</tr>
<tr>
<td>19/05/08-06/06/08</td>
<td>Retail Unit Audit</td>
<td>Retail</td>
</tr>
<tr>
<td>15/06/08-21/06/08</td>
<td>Sunyani Branch Audit</td>
<td>Sunyani</td>
</tr>
<tr>
<td>07/07/08-25/07/08</td>
<td>Brokerage Unit Audit</td>
<td>Brokerage</td>
</tr>
<tr>
<td>08/09-10/10/08</td>
<td>2008 Half Year Accounts Audit</td>
<td>Accounts</td>
</tr>
<tr>
<td>26/10/08-01/11/08</td>
<td>Takoradi Branch Audit</td>
<td>Takoradi</td>
</tr>
<tr>
<td>17/11/08-29/11/08</td>
<td>Corporate Unit Audit</td>
<td>Corporate</td>
</tr>
<tr>
<td>07/12/08-13/12/08</td>
<td>Ho Branch Audit</td>
<td>Ho</td>
</tr>
</tbody>
</table>

Table 5.9 shows an internal audit activities for the year 2008 prepared by the audit department and approved by the board.

Table 5.9 shows an audit programme had been drawn up for the various audit activities. This was used by the Head of Department to review the activities of the department. The management and the board had also been provided with the audit plan which they periodically use to assess the performance of the internal audit department. Table 5.9 shows that there was a clear audit plan in place that specified the periods for visits to the various branches and the number of days that will be spent. Provision had been made for holidays and examination dates for the staff. The audit plan is prepared by the audit department and presented to the board for approval. It was observed that the audit plan was not communicated to the branch and department whose activities the internal auditors audit. Table 5.8 shows that 80% of the respondents responded that they were not aware of the audit plans for their branch/departments. Only 20% of the respondents responded that they were aware of the audit plans for their branch/departments. The study shows that the branches and departments are audited once a year according to table 5.7. Thus by the end of the accounting year, every branch and department get audited. For example as of 31st December, 2008, all branches and department had their operations and activities audited. There was no department/branch which has never been audited before.
5.4.6 The “Who” Element

There are three staff in the department and all of them were found to have the required professional expertise for the job. All the internal audit staff were aware of the duties and objectives of the internal audit department. There was also evidence of proper planning in the performance of their duties. The Head of the Department was found to have a close working relationship with management. It was observed that the chief internal auditor was in high management position but he was not part of the management team. Training programmes were outlined for the department staff. It was evident that there was effective coordination between the internal and external auditors.

The internal auditing profession is vital to an organization’s health and well-being. In order to live up to such expectations, internal auditors should remain current and focus on areas which are regarded as important now and in the future. They should ensure that they have or obtain the skills and competencies necessary to meet their responsibilities as defined by the internal audit definition and IIA Standards. My research revealed that, even though the audit staffs have the requisite audit qualifications to perform their duties, they still embark on refresher courses to remain current as suggested by Marais et al (2009).

5.5 Analysis of Control Environment

5.5.1 The Control Environment

A human resource policy manual was operational which outlined the ethical values expected of staff and also the sanctions available if staff flouted the policies. The internal audit department has also instituted some control measure. For example staff had been denied direct access to open cheques and cash which decrease the temptation to be fraudulent. Also all payments were subjected to audit approval. All, source documents such as invoices, receipts are audited before payment is made.

5.5.2 Board of Directors Or Audit Committee

The Company has seven experienced Board of Directors with a renowned banker, economist, founder, and a former Governor of the Bank of Ghana as its Chairman. The company Board of Directors oversees the activities of the company. Board of Directors has the oversight responsibility to the shareholders, potential shareholders, the investment community, and others relating to the Company’s financial statements and the financial reporting process, the systems of internal accounting and financial controls, the internal audit function, the annual
independent audit of the Company's financial statements. The members were found to have wide range of experience in various sectors. It was also realised that the internal and external auditors had access to the Board which was expected to provide to the board independence opinions about the management of the company. The company has audit committee in place. The primary function of the audit committee of Star Assurance Company Ltd is to assist the board of directors in fulfilling its oversight responsibilities for
(1) The integrity of the company's financial statements,
(2) The company's compliance with legal and regulatory requirements,
(3) The independent auditor's qualifications and independence, and
(4) The performance of the company's internal audit function and independent auditors
In discharging its oversight role, the committee is empowered to investigate any matter brought to its attention with full access to all books, records, facilities, and personnel of the Company and the power to retain outside counsel, or other experts for this purpose

5.5.3 Organisational Structure
The company runs a partly centralised and partly decentralised system. The Head Office was in Accra where all major transactions were initiated and executed. They also have branch managers who manage the various branches but report to the Head Office for all major decisions. At the Head Office, there was segregation of duties for the various transactions. This was observed to be a good control measure.
The study also revealed that the internal audit department is well structured.
Figure 3.0 shows the structure of the internal audit department of Star Assurance Company Ltd.

It shows whom the department report to. It shows that the head of the audit department report to the board.
CHAPTER 6

6.0 RECOMMENDATIONS AND CONCLUSION

6.1 Introduction
This chapter discusses the conclusions and recommendations of the study which was conducted on the compliance or non-compliance of organisations with the requirements of the Institute of Internal Auditors. A case study of Star Assurance Company Ltd

6.2 Summary
6.2.1 Functions and Role of the Internal Audit Department
My research revealed that Star Assurance Company Limited has an internal audit department, which could be said to be auditing its activities in accordance with the definition as specified by the I.I.A. It was observed that the Internal Audit department assisted management in the discharge of their responsibilities by furnishing them with analysis, recommendations and pertinent comments concerning activities of the company, e.g. the Internal Audit department was involved in assessment and review of the activities of all branches and departments

6.2.2 Ethical Guidelines
Information gotten from some of the corporate documents shows that the head of the internal audit department was in a high management position and this must be continued and therefore satisfied the organizational status requirement. A relevant corporate document such as the company annual report shows that the Head of Internal Audit was not part of management and so was not part of decision making of the company. In view of the above, it believed that the internal audit department is objective in performance of its duties. It was observed that the internal audit department was independent. For example, the organogram of the company shows that, the internal audit department reports to the board and for that matter independent of the operations of the company

6.2.3 Challenges
The weakness observed was the number of staff in the department. There were only three staff in the department and considering the number of transactions which had to be pre-audited. It was difficult to audit all the various units as planned at the beginning of the year. The staff and management did not know what the unit was expected to do and how they do it. They did not also know the audit plan. Organisationally staff perceive audit as an attempt by directors to institute spies on their duties which sometimes makes it difficult to get their
support. Some audit recommendations were not implemented due to factor beyond the implementer’s control. For example wrong opening balances were captured when migrating to new software. In one of the auditor’s report, it was recommended that those opening balance should be corrected but the software consultant said that will not be possible system wise.

### 6.3 Recommendations

It is also recommended that, the internal auditor should submit to senior management and the board a summary of the plan of work for the upcoming year. The summary should be approved by senior management and tendered to the board for informational purposes. Such information helps the board ascertain if the work of internal auditors supports the objectives and plans of the entity.

It was observed that, the internal auditor presents reports of its activities to senior management which should be continued. Management has a duty to resolve issues raised. Even though the company is not listed but, the company has put in place an audit committee. This ensured that corporate governance principles were adhered to.

The setting up of an internal audit department will need careful planning and a strategic management process to monitor and evaluate the department. Research has indicated that benchmarking methodologies can be used across a range of different organizations to establish the benchmarks. However, Star Assurance will need to tailor certain critical success elements to suit them, or identify which organizations that have similar processes to which they can benchmark their effectiveness. This is particularly important in determining the structure of the department, the use of audit committees, reporting lines, scope of work and staffing requirements. Moreover, the research has revealed that charters of internal audits are gradually broadening to cover the whole organization. Furthermore, dynamic change in the competitive environment means that there is the need for strategic approach to setting up and developing internal audit departments.

It is recommended that the department maintains its high position to gain a good perception in the minds of people. The right of direct access to top or senior managers is critical to the success of the department. The use of the audit committee is considered as very critical. A membership size of five is adequate for a company with the size of Star Assurance Company Ltd. The department should enjoy complete objectivity and independence.

The audit charter should outline the authority given to the department, various types of audit to be undertaken and procedures for issuing, and responding to reports. How much the department should do has to be properly defined to provide a source of reference and a benchmark for future activities. There should be a procedure handbook for the department. In
addition, the work of the department and its procedural guidelines should be well documented. A systematic approach should be adopted to identify task areas as well as prioritizing. Time allocation (for example, staff days per task) should be based on this system after making allowances for contingencies, holidays, and study leave.

The research revealed the potential threat to quality work in the internal audit departments due to a small number of staff. It is therefore recommended that:

- two additional staff with audit experience be employed to augment the staff strength of three
- staff should be motivated through strategies such as effective feedback systems, self-fulfillment, self-esteem, creativity and participation in goal setting; and
- there should be effective staff training and development programmes

Potential benefits of the internal audit department and commitments needed from executive management and other staff to ensure success should be stated. The research revealed that there was no mechanism in place geared towards reviewing the department as a whole. As cost is involved in setting up and running an internal audit department, it is important that the department should be evaluated for its efficiency, effectiveness and economy.

Criteria that could be used in this evaluation include: cost/benefit analysis, the audit director’s report, recommendations of the audit committee, and top management’s evaluations feedback from customers, adhering to plans, developing and training, individual targets and objectives, staffing and skills.

The benchmarking approach adopted for this research has been useful in establishing and identifying problem areas in the audit function. This is strategically important, as over the last few years many of the traditional processes and functions of the organization have changed or have been re-engineered. If internal auditing is to remain a key weapon in the defence of the company, then this process too needs re-engineering. The re-engineering should focus on the critical elements which this research has shown.

Internal Auditors are encouraged to report that their activities are “conducted in accordance with the standards for the Professional Practice of Internal Auditing”. However, internal auditors may use the statement only if assessments of the quality improvement program demonstrate that the internal audit activity is in compliance with the standards. The researcher therefore recommends the use of “conducted in accordance with the standards” in their reports since there was no evidence of the use of such statements in their reports even though the study showed that the internal audit activity is in compliance with the standards.
The COSO report reinforces the value and importance of management and internal auditors being more involved in understanding internal control and establishing an adequate and effective internal control system. The COSO report represents a milestone in the evolution of internal control. In light of provisions of the COSO report, management and internal auditors should take advantage of this unique opportunity and attempt to improve their organizations’ internal control systems as well as financial reporting and corporate governance systems.

### 6.4 Recommendation For Further Studies.

I recommend that other researchers could conduct a broader study of the entire Internal Control System of Star Assurance Company Ltd and other insurance companies as a whole.

### 6.5 Conclusion

The study can conclude on the following issues discussed as follows:

- **a. Identify the functions and role of the Internal Audit Department.**
  It was observed that the company was to a large extent complying with the functions and role as outlined by the IIA. They assisted management in the effective discharge of their responsibilities by furnishing them analyses, appraisals, recommendations.

- **b. Identify the ethical guidelines of the internal audit department.**
  It can be concluded that the organisation satisfies the ethical guidelines of organizational status, objectivity and independence.

- **c. Identify the control environment at Star Assurance Company Ltd**
  It was observed that the control environment was adequate for the operations of the company. There were clear guidelines on integrity and ethical issues. There were also human resource policies in place.

- **d. Identify the challenges faced by the internal audit department.**
  It was observed that the major challenge of the department was the small number of staff.
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APPENDIX 1
Blekinge Institute of Technology
Sweden

The Compliance Or Non-Compliance Of the Internal Audit Department Of organizations with the Guidelines Specified by the Institute of Internal Auditors (IIA). A Case Study of Star Assurance Company Ltd. A benchmarking approach

Questionnaires for Audit Staff

SECTION A-WHAT TO DO.

1. Are you aware of the internal audit charter? Yes □ No □
2. Are you aware of the duties of the internal audit department? Yes □ No □
   2a. If yes please mention them.
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3. Has the internal audit department put in place any internal control mechanism? Yes □ No □
   3a. If yes, please mention them.
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5b. Do you think the internal control measures will safeguard the assets of the company. Yes □ No □
3c Why? Please give reasons for your choice of answer to question 3b (why no, why yes)

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4. Can the internal audit department audit all activities and departments of the organization?
   Yes □ No □

5. Is the internal audit department empowered to make changes to systems, methods or staffing?
   Yes □ No □

6. Has the internal audit department made any changes to any system in the past 4 years?
   Yes □ No □
6a If yes, briefly state the change.

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7. Are recommendations from internal audit department implemented? Yes □ No □
7a If yes, mention some recommendations implemented.

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8. Are there any measures to protect internal auditors from victimization from management?
   Yes □ No □

9. As an internal Auditor, do you feel protected? Yes □ No □
9a If yes, how do you assess your level of protection?
   Some how protected □ protected □ very protected □
SECTION B-THE HOW ELEMENT-AUDIT SCOPE

1. As an internal auditor do you understand the processes and procedures of the departments you audit?
   Yes [ ] No [ ]

2. Do you have sufficient access to information, records, people in the company in performing your audit work? Yes [ ] No [ ]

3. Do you have a procedure handbook for your department? Yes [ ] No [ ]
   3a. When was the last time the procedure handbook was reviewed?

4. Do you know the procedures for writing audit reports after auditing? Yes [ ] No [ ]
   4a. If yes, briefly state the procedures
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5. Do you think the internal audit staff adopts professional and ethical standards at all times?
   Yes [ ] No [ ]

6. Do you think the internal audit staff fosters constructive working relationship with accountable management? Yes [ ] No [ ]

7. How often do you audit the branches/departments?
   Once a year [ ] twice a year [ ] thrice a year [ ] others…………………………..

8. As of 31st December 2008 is there any branch or department which has not been audited in the past 4 years
   Yes [ ] No [ ]

8a. If yes, please mention them and give brief reasons why those departments or branches have not been audited.
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All information provided will be treated with utmost confidentiality.
This research is in partial fulfillment of the requirement for the award of Master’s degree in Business Administration

NAME OF RESEARCHER: ASARE BAFFOUR
APPENDIX 2

Blekinge Institute of Technology
Sweden

The Compliance Or Non-Compliance of the Internal Audit Department of organizations with the Guidelines Specified by the Institute Of Internal Auditors (IIA). A Case Study of Star Assurance Company Ltd. A benchmarking approach

Questionnaires for Non-Audit Staff

SECTION A-PERSONAL DETAILS OF RESPONDENT
Branch/Department……………………………………………………………………………………………
Position:………………………………………………………………………………………………………..
Number of years with Star………………………………………………………………………………….

SECTION B-WHAT TO DO
1. Are you aware of the internal audit charter? Yes ☐ No ☐
2. Are you aware of the duties of the internal audit department? Yes ☐ No ☐
2a. If Yes, please mention them
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3. Are you aware of the internal control mechanisms put in place by the internal audit department?
Yes ☐ No ☐
3a. If yes, please mention them
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4. Do you think the internal control measures will safeguard the assets of the company?  
   Yes ☐  No ☐

4a. If no, please state areas of weakness

5. Do you know the procedures for responding to reports from internal audit? Yes ☐  No ☐

6. Are recommendations from internal audit implemented? Yes ☐  No ☐

   6a. If yes, mention some recommendations implemented in your department/Branch

SECTION C-THE HOW ELEMENT-AUDIT SCOPE

1. Do you think the internal audit department understands the processes and procedures of your department for effective auditing? Yes ☐  No ☐

2. Do you think the internal audit department has sufficient access to information, records, people in the company in performing their duties? Yes ☐  No ☐

3. Do you have a procedure handbook for your department? Yes ☐ No ☐

   3a. If yes, When was the last time the procedure handbook was reviewed?

4. Do you think the internal audit staff adopts professional and ethical standards all the times? Yes ☐ No ☐

5. Do you think the internal audit staff fosters constructive working relationship with accountable management? Yes ☐ No ☐

6. How will you rate the performance of the internal audit department?
SECTION D-THE WHEN FACTOR

1. Are you aware of the audit plan for your department? Yes ☐ No ☐

2. Has your department/branch been audited before? Yes ☐ No ☐

2a. If yes, when was the last time your department/branch was audited?

2008 ☐ 2007 ☐ 2006 ☐ 2005 ☐

2b. If yes to question 2, How many times have your department been audited from 1st January 2005 to 31st December, 2008.

Please state

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NAME OF RESEARCHER: ASARE BAFFOUR