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IMPORTANCE OF INTERNAL AUDI- TORS OF A COMPANY

Case: Lintas Ghana Limited and Kasapreko Company Limited (KCL)

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ABSTRACT

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An auditor's report is treated as an important tool when submitting financial information to users. Experts in investment are always interested in the report submitted by either internal auditors or external auditors. Investors are easily influenced by the auditor's report of a company. The primary focus of this thesis is to analyze the importance of internal auditors in a company and it is aimed at identifying the key role of internal auditors and also what exactly internal auditors do in a company.

In order to achieve the above mentioned objective, both empirical and theoretical studies were organized. The empirical section focused on two case companies namely Lintas Ghana Limited and Kasapreko Ghana Limited with much attention on the internal audit department of the above mentioned companies. Data collection was organized through various interviews conducted and also from the literatures used and the internet. A qualitative research method was used in accumulating the empirical data with the help of a questionnaire.

Based on the results it could be recommended that internal auditors should be given the total freedom in their work without interrupting for internal auditors to be able to give a fair opinion which will show a true reflection of the company's financial statement.

TIIVISTELMÄ

Tekijä	Mathew Sey
Nimeke	Sisäisten tarkastajien tärkeys yrityksessä
Vuosi	2013
Kieli	Englanti
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Tilintarkastustietoja pidetään tärkeänä työkaluna kun halutaan toimittaa taloudellisia tietoja käyttäjille. Sijoituksen asiantuntijat ovat aina kiinnostuneita sekä sisäisten että ulkoisten tilintarkastajien toimittamista raporteista. Sijoittajat saavat helposti vaikutteita yhtiön tilintarkastuskertomuksista. Tämän väitöskirjan pääpaino on sisäisten tarkastajien tärkeyden analysoinnissa ja sisäisten tarkastajien keskeisen roolin tunnistamisessa sekä myös mitä sisäiset tarkastajat tarkalleen ottaen tekevät yrityksessä.

Edellä mainittujen tavoitteiden saavuttamiseksi järjestettiin sekä empiirisiä että teoriittisia tutkimuksia. Empiirinen tutkimus keskittyi kahteen yritykseen, Lintas Ghana Limitediin ja Kasaprenko Ghana Limitediin, antaen paljon huomiota kyseisten yritysten sisäisten tarkastajien osastolle. Tiedonkeruu järjestettiin erilaisilla haastatteluilla, ja kirjallisuutta ja internetiä käyttäen. Laadukasta tutkimusmenetelmää käytettiin kerryttämään empiiristä tietoa yhdessä kyselylomakkeen kanssa.

Siksi kirjoittaja suosittelee, että sisäisille tarkastajille olisi annettava täysi vapaus työssään ilman keskeytyksiä, jotta he voisivat antaa rehellisen lausunnon, joka antaa oikean kuvan yhtiön tilinpäätöksestä.

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1 INTRODUCTION

The thesis is based on the topic “Importance of Internal Auditors of A Company”, a case study of Lintas Ghana Limited and Kasapreko Company Limited (KCL). It is mandatory for all the companies registered under a company’s act that their financial accounts are audited. There are advantages in auditing the accounts even when there is no legal obligation for doing so.

Take into consideration a situation where a reputable company or an investor wants to invest hugely in a company or an organization. Experts in investment are always interested in knowing what the auditor’s report says and also how financial statements are prepared. Most investors are influenced by the audit report of a company. This is due to the fact that auditing of accounts helps identify errors and frauds in time.

Auditing is the base for an active function of the capital markets because auditing helps decrease company risks. Other authors (e.g. Christiane 2006, 145-146) argue that the capital market controls the quality of auditing reporting report. Auditing is defined as the conducting of a formal financial analysis or inspection of an individual’s account or an organization’s account. Auditing involves the verification and analysis of an individual or an organization’s financial accounts or books, systems, compliance to procedures and other financial documents used in the financial recording process. These functions are performed by an independent person known as auditor. The independence here refers to the independence of the external auditor or the internal auditor from other groups that are having a financial interest in the company being audited. Joe, Gerrit & Philomena (2008) defines independence as having freedom from all material conflicts that may threaten the objectivity of the audit work. This means, it is a condition where threats to objectivity are managed properly such that the risks of ineffective audit work are controlled.

The auditor is thus any human being who performs an independent verification of an individual or organization. The main aim of an auditor is to submit a report in-

cluding his or her opinion on the findings and possible advice relating to the problem identified.

Many auditors of a company struggle with a variety of issues when conducting auditing services. These issues are sometimes common across many companies and if not managed properly and dealt with could hinder the security and compliance aim of the company.

The auditor's report done by an independent person or body can serve as an important source of information for the users of the financial reports. The auditor's report clarifies the auditor's work. The auditors also state their opinion regarding to their fairness in relation to the general accepted accounting principles.

1.1 Research Problem and Objective

Most authors and researchers focus attention on articles concerning external auditors. Articles such as an external auditor's reliance on internal auditors (example Suwaidan & Amer 2010; Hasnah, Andrew, Rozaldy & Ismail 2004) have been written by different authors. Other articles and studies focus on the external auditor's evaluation of the internal auditor's job (example Lampe and Sutton, 1994). Thus, even though there is much literature available on internal auditing, and it has even expanded over the years, there is a lack of studies on the importance of internal auditors in a company.

Therefore this research focuses on the importance of internal auditors in a company. Through this research, the following questions are set:

- What is the key role of internal auditors in a company
- What exactly do internal auditors do in a company

By solving the research problem, will be revealed the importance of keeping internal auditors in a company and the advantages the company derive from the internal audit department or section.

1.2 Review of Related Literature

This part of the thesis consists of the literature used for the thesis. It describes certain theoretical material which helps in the thesis process.

The thesis will focus on utilizing printed books that have connection with the topic. Also some academic articles that have writings on internal auditing will be used. In addition, information accessible on the internet will be checked and used in the thesis.

The books that will be used in the theoretical aspects of the thesis include:

Auditing and Business Communications, by Sazena R. G., Srinivas K. & Rai U. in 2010. The authors have combined the various terms of auditing practices which are used by various countries across the world. The printed book also provide information such as the classification of audits, standard auditing practices, liabilities of an auditor, auditor's report, professional conduct and ethics and etc.

The Essential Guide to Internal Auditing by K.H. Spencer Pickett in the year 2011. The printed book is a second edition and also a summarized version of the Handbook of Internal Auditing, Third Edition. The author provides the internal auditors and the students in the internal auditing field an understanding of the audit context and how this context is used in the corporate world. The book includes expanded coverage on risk management, helpful models, practical guidance and checklists for internal auditors and students in the field.

Cutting Edge Internal Auditing by Jeffrey Ridley in 2008. The book gives knowledge and guidance to various internal auditors and students in the field. It also encourages internal auditors and the students in the field in developing more professional practices in all risk management, control and governance processes. The book was written to develop the motivations, goals and categories of innovation in internal auditing.

Other books that were useful and interesting for the studies are variety of auditing books which talks about internal auditing and external auditing which helps in building the theoretical part of the thesis. Also some accounting books which provides information towards the purpose of the thesis were used in developing the theoretical part.

Also some academic articles on theseus.fi were used. The relevant academic articles that provides information on the purpose of the thesis include: Improving the Current Standard Auditing Procedure of Baker Tilly A&C Auditing And Consulting Co., ltd case – zim integrated shipping company (Phat 2012) and Intrnal Auditors- what is their role? (Mikael & Niklas 2010).

1.3 Purpose of Thesis

The purpose of this study is to identify the importance of internal auditors and their key role in a company.

1.4 Research Methods

Research is the methods used to gather information and data for the purpose of making decisions. Thus research involves the investigation into and study of materials in order to provide facts and answers. The two major approaches of research are quantitative and qualitative research (Rajendar 2008, 1).

The research methodology that will be used in this thesis will be the qualitative research method. It will be used to gather the empirical data. Qualitative research involves the exploration of issues, understanding it phenomena and answering questions. In this research work, respondents will be interviewed with the help of questionnaires which are designed with open ended questions. This will be distributed among the sample population. Face to face interview might be carried out in order to observe emotional and facial connection to the answering of those questions.

1.5 Limitations of the Study

The study is meant to come out with results and findings that will be relevant for internal auditing practices in Ghana. Despite the purpose of the thesis, the researcher faced certain problems in the process of bringing up the study. The problems are described below:

The time, money and distance constraints and the human resources available affected the quality that the study work should get. Best practices were used in order to achieve the possible goal of this thesis work.

The thesis work was limited to three companies in Ghana but one company failed to return the questionnaires sent to them so, therefore the research only includes two companies. Accurate information about the importance of internal auditors in a company will not be achieved due to the number of companies used in the thesis work.

The respondents answered the questionnaires very late giving the reason that the company was busy with other issues. Also some parts of the questionnaires were not answered by a respondent.

1.6 Structure of the study

The whole research work is divided into five (5) parts and they are: the introduction, theoretical framework, research methodology, empirical studies, findings and conclusions and recommendations.

The introduction part of the thesis describes what the whole thesis is about, taking into consideration a background of the thesis which will be the main focus, review of literature, objectives of the studies and its limitations.

The thesis focus is then on going through the various publications that have already been discussed about auditing and internal auditing. The main discussions focuses on internal auditing, importance of internal auditing, code of ethics of in-

ternal auditors, roles and responsibilities of internal auditors, and internal auditors dealing with people.

The third part of the studies focuses on the methods used in gathering data for the thesis. The third part also explains the sample and the research population used in the thesis. It also discusses the validity and reliability of gathering and acquiring data.

To get the main understanding the study, the data obtained from respondents is analyzed by the researcher in the analysis and empirical part. The data collected are analyzed by the researcher based on the respondents answers given through the questionnaires sent to them and presented in an appropriate way to assist reach the intended purpose and objectives of the thesis work.

A conclusion will form the final part of the thesis work. It will contain both summary and recommendations. It will be made based on the made analysis. Thus the conclusion part will give a summary on all the previous chapters and also the recommendation base on the findings.

2 THEORETICAL FRAMEWORK

The word “Audit” comes from a Latin word “audire” which means “to hear”. In the olden days, whenever the owner or stakeholder of an organization suspected fraud in the business organization, the owner always put someone in the position of checking the financial accounts. The owner or the stakeholder is later provided with a list of explanations for him or her to listen by the individual in charge of the financial account. A feedback will be provided by the person responsible for the accounts to the owner or stake holder of the organization after the checking of the financial accounts and the explanations. (Ravinder & Virender 2006, 1).

Also in the earlier days the audit work was done to identify whether payments and receipts made by the accountant of an organization is correctly accounted for or not. In the present days the audit work is done not only to find out whether payments and receipts are correctly accounted or not but also to bring out the report on the financial position of the organization as shown in the organizations balance sheet and profit and loss account for the accounting year. After some years, the independent person being promoted to check the account is called the “auditor” and the assignment of hearing and checking of the account is known as “auditing”. (Basu 2006, 2).

2.1 Accounting

Accounting involves a process. It is a method or action of recording, measuring, interpreting and communicating information concerning the economic wealth and income. (Jack 2001, 1-2). These accounting actions can be applicable to basically to a person, any business body or organization, a group of people, a non-making-profit organization, government body or to everything that is in connection or associated with economic wealth. Accounting information gives a quantitative information and mostly financial in nature about an organization which is used in the making of decisions or making of reasonable decision among alternative course of actions. For all accounting activities of an organization, income acts as a key element. It is an important factor in the accounting process of any organiza-

tion. Accounting information made available by the steward through accounting records and financial statements directs to the root of the bad situation and thus helps organization to solve the causes and not to only repair the side effect. (Michael & Brian 2001, 4-5).

The accounting process is performed by the accountant in an organization or a business entity. The accountant is an individual or a person in an organization who is trained and qualified for the method and techniques of recording and processing of financial data and also provision of financial information to the users of accounting information. The accountant always maintains the organization account, records the daily organizational transactions and also does a methodical recording and examination of the costs incident to production. (Bob 2004, 5).

2.1.1 Accounting Information

The fundamental aim of accounting is to generate information that will be important to the end users of accounting information which is then used in decision making. Accounting information includes all available information that an accountant of an organization use to generate annual reports. The accounting information are suitable for the end users in making decision and especially appropriate for decision making in an organization and also accounting information assist in revealing the exact financial position of an organization. (Carmen, Adina & Luminita 2009, 196).

Accounting information is all about the presentations that an accountant provides to users of the accounting information or stakeholders at the end of every accounting year. All business activities that take place in an organization become a data and later being processed to appear as information which helps the decision makers to make organization decisions. (Jack 2001).

2.1.2 Importance of Accounting Information

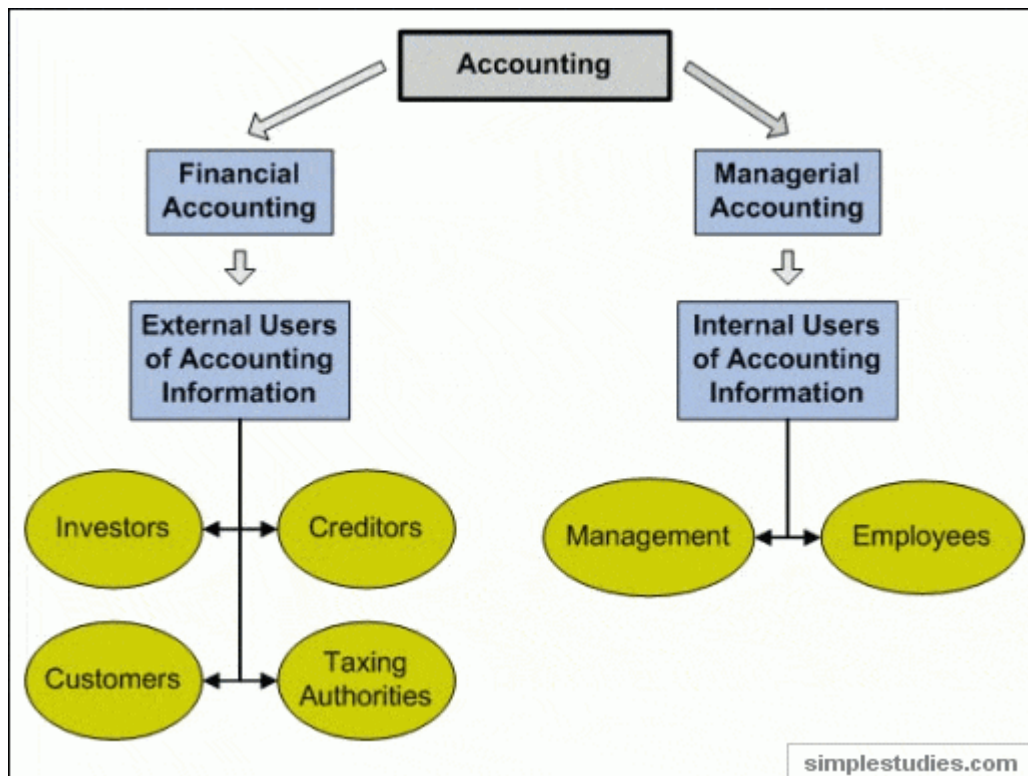
The vital aim of accounting is to communicate appropriate financial information of an organization to interested persons. In recent years, the owners and stock-

holders of a company or an organization expect to see an account from their stewards which have already been audited and verified by an independent accountant (auditor). The original aim of accounting was to provide details of what had been going on – how the stewards had received and used the owners of company money. This accountability role still holds, though there are other roles for accounting information being added”. (Collis & Hussey 2007, 5).

From the investors’ point of view, important information is information which assists to their investment decisions. Financial accounting information helps investors in identifying and assessing other investment opportunities (Robert & Abbie 2003, 67).

2.1.3 Users of Accounting Information

Accounting exists for a certain purpose and that purpose is to assist people or individuals in making better decision from other alternative course of actions (Peter & Eddie 2001, 2-3). The users make use of the accounting information in their daily activities. The figure below shows the relationship that exists between the accounting information users and the types of accounting.



Source: (Simple studies, 2013).

Fig. 1: Types of accounting and accounting information users

Based on the illustration above, it is clearly known that accounting information users can be grouped into two broad categories. That is the internal users and external users. External users of accounting information are people outside the reporting organization that are interested or attracted to the accounting information. Examples are the investors, creditors, taxing authorities and customers. Internal auditors on the other hand are people who work inside the reporting organization who are interested or attracted to the accounting information. Examples are an organization's senior and middle management who make use of the accounting information by using it to run the organization and also the employees of the organization. (<http://www.simplestudies.com/introduction-to-accounting.html>)

2.1.4 Relationship between Accounting and Auditing

Mautz and Hussein (1961, 14), state that auditing and accounting have a close relationship even though they have different natures. Accounting and auditing are seen as business associates and not as the relationship between a parent and child.

Accounting as defined by Peter and Eddie (2001) is involved with the collection, analysis and the communication of economic information obtained. The economic information is used as a tool for planning, decision making and control. Accounting is therefore explained as the preparation and examination of financial information which is later communicated to internal and external users of the financial information through the financial statement.

Auditing on the other hand, consists of examining the reliability and validity of the financial information provided by the accountant and also evaluating the reliability of the systems used in recording that financial information in an organization. Auditing is critical, inquiring associated with the fundamental part of accounting measurements. The object of Auditing is to set up the correctness and completeness of the statement of accounts of a company (Ashok 2008).

Accounting work is a necessity, while auditing work is a luxury. Necessity here means anything that is needed to stay alive and continue the working capability. Luxury on the other hand is the needs that one can survive without. Thus, accounting work is always part of every organization business world. It serves as a memory for the organization, proof to the court, proof in case of insolvency, helpful in sale of business and also to know the actual financial position of the organization. Auditing work on the other hand can be avoided by an organization and still survive in the business world. Auditing work is mostly conducted by bigger organization and thus is seen by smaller organizations as misuse of money (Ashok 2008).

An Accountant in an organization is mostly appointed on a permanent basis such that he or she performs a daily duty in the organization. The Auditors are an independent body. The accountant normally starts his or her work when the work of

the book keeper ends while the auditor also starts work when the work of the accountant ends. The accountant thus accepts all information given to him or her and later uses his or her specialized knowledge to present it but the auditor does not accept the information given to him or her and through that find out whether the information provided by the accountant is true or not (Ashok 2008).

Accounting services include services performed by the accounts payable workers, account receivable workers, services by the accountants and the accounting manager. The services provided by the above mentioned employees include preparation of financial management reports, guiding and supporting taxation issues, preparing timely payment of invoices. Auditing services include services provided by the internal audit staff and the external auditors or the external audit company. The services include examining the reliability of the financial information provided by the accountant and also evaluating the reliability of the systems used in recording that financial information in an organization (Ashok 2008).

2.2 Auditing

Auditing is a very complex procedure. In the past years, an exhaustive survey of the history of auditing has been done by some authors and through that some of the achievement in the improvement of auditing has been identified. Auditing is a particular function that involves legal, economic and ethical implications. According to Sazena, Kastoori and Urmila (2010), auditing is a structure of check on individuals who in the process of their work manage the receipts and payment of an organization or money belonging to other individuals.

According to Spicer and Pegler (2007), auditing is the analysis of the accounts, books and vouchers presented by an accountant of an organization. The aim is to clarify that the balance sheet figures show a true and fair view of the activities of an organization and the profit or loss result by an organization throughout the financial period.

To explain the definition given by Spicer and Pegler, auditing is a process of collection and measuring the evidence of an account or an organization's records in order to give a report about the suitability between those data presented with the settle standard of auditing. The process is carried out by individuals who have knowledge and understanding in both accounting and auditing area and that individual is known as "auditor".

2.2.1 Functions of Auditing

Auditing is basically concerned with the verification and examination of the books of accounts of an organization. Audit forms a vital part of the financial system of every organization or business. The important functions of auditing are as follows:

- To verify the existence and valuation of assets.
- To check the accuracy of the books of accounts of an organization.
- To certify the accounting systems, internal control and management trend of the organization.
- To run a test check of the internal control system to find out if it is true and fair.
- To detect fraud in the books of account of an organization (Sazena et al. 2010).

2.2.2 Categories of Auditing

There are two categories of auditing in the business world. The functional category and the implementation category.

A. Functional category

In accordance with the functional category, auditing can be grouped into three (3) categories. That is, the Audit of a Financial Statement, Operational Audit and the Compliance Audit.

- **Audit of a Financial Statement:** Financial audit is also another word for audit of a financial statement. It involves the examination of an organization's financial statements by giving a view and also to express an audit opinion. The aim of audit of financial statement is to produce a reasonable assurance that the organization's financial statements presented by the accountant are fairly in all material aspects or the financial statements presented gives a true and fair view in conformity with the financial reporting standards (International Standard on Auditing 2012, 315).
- To explain the above definition of audit of a financial statement, financial audit involves the process of ascertaining whether all financial statements presented by an accountant of an organization are in accordance with the financial reporting frame work or not. That is, it is a process whereby the auditor checks the trustworthy of the financial statement being announced. The main statements being audited by the auditor is the income statement, balance sheet, statement of cash flows and other footnotes (Sazena et al. 2010).
- **Operational Audit:** operational audit is the examination of how the management of an organization and its operating process are performed in consideration of their effectiveness and efficiency in reaching the organization's objectives. For instance an organization might carry out an operational audit if the top managements in the organization have the view that the organizations operational can be improved and that it need to be identified in the transactions done by the organization. Operational audit is mostly performed by the internal workers or the external auditors who have enough knowledge in the field. Operational audit normally gives a deeper study of an organization's operations than the audit of financial statement. The main aim of operational audit in an organization is to enhance the workflow procedures and hasty turnabout situations (Osmand Vitez 2012).

The standards used in measuring when conducting operational audit depends on each operation in the organization. That is, there is no general

obligatory standard that auditor use. The choosing of standard always depends on the auditor performing the auditing service and thus it is subjective. Operational audit are performed by either the internal employee or the external auditor and also it is the organization being audited that enjoys the benefit of the operational audit (Sazena et al. 2010).

- **Compliance Audit:** a compliance audit is performed to ratify whether an organization comply with an agreement or rules and regulations in relation to a practice defined by an external authority. That is, a compliance audit is done to confirm whether an organization is practicing the terms of agreement or the rules and regulations. A compliance audit is very comprehensive. The statements analyzed in compliance audit will vary taking subject to whether an organization is a private organization or a public organization and also the sort of data handled by the organization (Margaret Rouse 2010).

To explain the above definition of compliance audit, compliance audit analyze the degree of an organization's law, policies or management standards. Tax, rule, law and policy are the standards used in compliance audit and it serve as a statements used by the organization. Thus the statements are usually given by the government in power. The compliance audit is normally executed by the external auditor or the government's auditor due to the purpose of the authority (Saxena et al. 2010).

B. Implementation Category

The implementation category can be grouped into four (4) categorizes. That is, independent audit, state audit, internal audit and tax audit.

- **Independent Audit:** the organization's statements of account should be examined by an independent person who is properly qualified for the audit work. The independence here means "the conclusion of an individual is not subordinate to the control of another person who has a self interest in

the result of the audit work” (Sazena et al. 2010). The auditor assigned to the auditing job is not an employee of the organization. Thus, he is an independent individual and should be independent of management of the organization that hired him. This implies that the auditor should function in a fair and neutral manner towards management and prospective investors and shareholders.

Only individuals practicing chartered accounts or having a certificate according to the auditor’s certificate rules 1956, can be given the job as an auditor of an organization. The aim of an independent auditor is to give a view as to the truth and fairness that the statements of account possess and that these are in compliance with the generally accepted principles of accounting.

In recent days, an independent audit has developed very quickly due to many accounting crime that were identified in many organizations. Independent auditors have now become very important in the business environment due to their independent features.

- **State Audit:** state audit is performed by the state audit agency. The auditors here are mostly national officials and perform their duties under the order of authority from the government and the national court. State audit is performed to evaluate whether the organizations that use the state capital or assets are in accordance with the rules, policies and laws of that organization.

The aim of state audit is to certify that the capital and asset of that state are effectively and efficiently used by the organization. Thus the state audit checks into thoroughly those aspects that are suspected to be misusing the state’s capital or asset. The standard for state audit varies from one country to the other due to the different law and policies (Sazena et al. 2010).

- **Internal Audit:** internal audit refers to extended audit of the organization’s accounts by well trained employees in the organization. Internal audit also means an organization’s managerial control exercise whereby an independent examination is performed by specially trained employees of

the organization and/or internal auditors hired from outside the organization. The staff of the internal audit section in an organization is permanent in nature and this helps the organization in detecting early errors and frauds in the organization.

The nature of operations of an organization always determines the main aim of the internal audit. Thus an internal auditor will have an independent position in the organization and also will be performing staff functions as other staffs and not any line functions. The following are some advantages of Internal Audit:

- i) Propose improvements and if possible solutions.
 - ii) Internal audit provides the managements of an organization with a perpetual source of information to enable managements to have effective control in the organization.
 - iii) Internal audit program helps build up the working effort of all employees in an organization with the fear of being exposed to the managers by the internal auditors.
 - iv) Identifies inefficiencies in important areas (Saxena et al. 2010).
- **Tax audit:** A tax audit is an examination of tax returns and all other tax related issues submitted by an individual or a company. The primary aim of the tax audit is to assist authorities in accessing the exact income of an individual or a company. During a tax audit work, the auditor must put into use the generally accepted practice and procedures of auditing. The auditor must keep detailed working papers which includes the work done during the audit work. A chartered accountant, who prepares the books of account and maintain the books of accounts of an organization, cannot be appointed for the tax audit assignments. Also a director, an employee or partner of an organization cannot be appointed as a tax auditor of that organization. Tax auditors can be appointed by board of directors in a case of a company whiles in a case of a partnership firm, a tax auditor can be appointed by a partner of the firm (Ravinder et al. 2006, 409-412).

2.2.3 Auditing Program and Planning

The audit of statement of account of an organization or a company includes a good planning, conduct and a conclusion. The audit program should be very flexible. That is before the start of an audit work the auditor should write down a program in accordance with the nature of audit that needs to be conducted. The auditing program and planning consist of a set of methods and process that the auditor of an organization plans in conducting the audit of accounts to attain his or her goals timely and effectively (Sazena et al. 2010).

According to Montgomery a well-known auditing handbook, an audit program consists of steps in conducting the auditing work. It outlines the planned procedure of examination.

2.2.4 Preparing Audit Program

The auditor appointed by the organization has to develop an audit program and later assign the work to various assistants and also setting the deadline for its completion. As part of the audit program, the auditor makes calculation of audit fees and the arrangements for billing to his or her client.

2.2.5 Audit Planning

The following factors should be taking into consideration when putting up an audit plan:

- Aim of the audit
- Outlook of duties of assistants
- Nature of the organization or company
- Organization structure
- Important personnel
- Accounting systems
- Whether there is a change of auditors
- Etc (Sazena et al. 2010).

2.3 Audit Process

The audit process is summarized into the following audit phases:

A. Terms of the Engagement

This stage allows the auditor to establish the terms of the engagement with the organization. Thus the auditor is able to set the objectives of the association with the organization. The engagement letter should state the authority, accountability and responsibility of the auditor (Richard 2007, 133-142).

B. Notification

This involves a letter to inform an organization of an upcoming audit service. It is prepared by the auditor. The letter involves preliminary checklist of the organization. The checklist comprises the documents of the organization (for example organization charts and financial statements) that assist the auditor to know more about the organization before planning the audit work. Thus at this phase the auditor gather information on the organization and uses it as a basis for establishing the audit plan. This stage addresses an organization's strategy and managing its operations and system. For example an auditor can gather information about an organization's accounting system and through that will identify which applications are financially significant and will form part of the audit plan (Richard 2007, 133-142).

C. Audit Planning

For the audit plan to take place, an initial judgment about the evaluation of the organization's business risks are created to set the scope of the audit. A good audit planning will ensure that the audit work is administered in an effective and efficient manner. The auditor should consider the results of the risk evaluation procedures and their knowledge of the organization when developing the audit plan. The auditor plan the review after reviewing the information gathered about the organization. The auditor organize a risk workshop as basis to address important

risks and raise risk awareness in the organization, prepare an audit plan and arrange an opening meeting (Richard 2007, 133-142).

D. Opening Meeting

At this phase, the auditor meets with the senior management and any administrative staff that may be involved in the audit work in one way or the other. The meeting is normally termed as the opening meeting. The scope of the audit work should be discussed during the opening meeting in the organization. It allows the senior management and any administrative staff that may be involved in the audit work to ask the auditor to examine the areas they are concerned about in the organization.

Also at this phase, it allows the auditor to know the exact time frame of the audit work as it will be discussed with the management and agreed upon. The time frame includes any potential issues such as deadlines and vacations of which could have an impact on the audit work (Richard 2007, 133-142).

E. Audit Fieldwork

The next phase after the opening meeting is the fieldwork. The finalizing of the audit work plan and the beginning of the fieldwork takes place at this phase. Fieldwork includes communicating with the staff in the organization, examining procedure manuals, learning the organization's business processes, conducting a test on compliance with the organization's procedures, laws, policies and regulations and evaluating the capacity of the organization's internal control. The management should make staff aware of that the auditor will be arranging meetings with them (Richard 2007, 133-142).

F. Communication

The auditor should communicate with the staff and management throughout the audit process. This helps identify issues noted and possible solutions. It also serve as an opportunity for the staff, senior management and administrative staff that is

involved in the audit work to discuss issues noted with the auditor (Richard 2007, 133-142).

G. Drafting a Report

After the completion of the fieldwork, the auditor prepares a report. The report is identified as an important tool when reporting financial information to users of that information. Thus many users of accounting information especially the third party users prefer that financial information is confirmed by an independent auditor. The report is being giving to the management of the organization.

The report has various sections. It includes the follow-up date, the distribution date, the scope of the audit work, any major audit concerns, the conclusion giving also analysis explaining the findings and recommended solutions to the problems. The management of the organization should always read the draft report by the auditor cautiously to make sure there are no errors in the draft report. However, in any case if the management should find an error in the draft report, they should notify the auditor right away before the final report will be released. Thus the auditor can make the necessary corrections before issuing the final report to the management of the organization (Richard 2007, 133-142).

H. Response of Management

After the finalization of the report, the auditor request for the management responses. The management responses should address the audit issues. The response includes 3 sections, thus whether the management agrees or disagrees with the problem, management actions to correct the problem and the expected date of completion (Richard 2007, 133-142).

I. Closing Meeting

The closing meeting is very important in the audit process. It is normally held after the response of the management. The closing meeting is held so that management and the auditor and staff will discuss about the report by the auditor and also

review the responses by management. This phase creates an opportunity for everyone to talk over how the audit work went and any other remaining issues (Richard 2007, 133-142).

J. Report Distribution

This phase involves the distribution of the report. The report is distributed to the management, administrative staff, internal audit and the external auditors. An audit survey can also be distributed to the audited unit to require feedback about the audit work. Feedback is very necessary and helps improve the audit process (Richard 2007, 133-142).

K. Follow-up

At this phase, a review is done on an issue-by-issue basis. It normally takes place shortly after the expected date of completion so that agreed upon corrective actions will be carried out. The objective of the follow-up is to check whether management has implemented the recommended possible solutions given by the auditor. The auditor does that by interviewing the staff, running a test or reviewing new process to perform the verification. A letter will be sent to the management from the auditor showing whether all problems have been satisfactory corrected or whether there is a need for further actions (Richard 2007, 133-142).

2.4 Auditor's Liability

As a member of the accounting profession, when performing his or her duty, he or she seeks to carry out a variety of accounting professional services and also carry himself as a qualified accountant to perform these tasks. When an auditor is selected to perform the audit task under an agreement to perform some professional task, he is to perform those with care and diligence as expected of a member of the accounting profession. The auditor has to perform his tasks according to the “generally accepted auditing standards” (Sazena et al. 2010).

It is very complex and difficult to detect whether an auditor is liable for any mistake he may have failed to find in the audited accounts of the organization. However, in any situation that the auditor shows negligence in the audit work, the auditor may be held liable (Sazena et al. 2010). The auditor would also be held liable if the organization should incur any loss due to his negligence.

2.4.1 Liability of a Private Company Auditor

It is not obligatory for a private company to hire an auditor to perform an audit work. Therefore an auditor who is appointed by a private company performs the audit work based on an agreement. The agreement consists of the conditions, terms, duties and powers. The auditor of a private company should therefore demand to take the instructions in writing from the company stating the scope of the auditor's tasks before starting the audit work. This helps to avoid any dispute about the auditor's exact scope of audit work in future.

The auditor must perform his duties in accordance to the instructions given and with honesty. The auditor should not be negligent when performing the audit work. Thus the instructions on the exact scope of audit work determine the auditor's liability. The auditor will be free from any liability if he should work in accordance to the instructions given by the private company. These will depend on the Contract Act (Sazena et al. 2010).

2.4.2 Liability of a Public Company Auditor

An auditor of a public company is appointed under the provisions of the country's Companies Act. That is, the auditor's liabilities and duties are being stated in the Companies Act. If the auditor fails to accomplish his duties in the process of the audit work in accordance with the provisions of a country's Companies Act, then the auditor is held liable.

- **Civil Liability for Negligence:** this is a situation where the liability of an auditor occurs due to the professional negligence of the auditor. In this case, there has to be a proof that the company suffered a loss through the

auditor's professional negligence and also the company has to prove that the loss is a result of the auditor's negligence. An auditor of a public company is selected by the company's shareholders and thus the auditor is expected to protect the interest of the shareholders. The auditor in this case always acts as an agent of the shareholders and therefore should perform his duties with a high degree of skill and care. If the auditor fails to act in that way then he must suffer the consequences (Sazena et al. 2010).

- **Civil liability under the Statute (Misfeasance):** misfeasance means when there is a breach of duty or negligence in the performance of duties as imposed by law of the country in which the audit work was held and due to that a company suffers some loss or resulted in a damage of a company's property (Sazena et al. 2010).
- **Criminal Liability:** An auditor of a company will be found guilty of criminal offence if he or she intentionally creates a false statement in the certificate, report, return or balance sheet. Under the criminal liability, the auditor is seen as an officer of the company such that the court is given the mandate to examine any officer in the company including the auditor when there is a suspicion of any possession of company's assets, books or information concerning the affairs of the company is being giving out (Sazena et al. 2010).

2.5 Internal Auditing

Internal auditing as defined by the Institute of Internal Auditors is an independent consulting activity outlined to add some value to already existing organizational operations and also to develop the operations of an organization. It assists an organization to meet its goals by introducing a well systematic, disciplined approach to assess and develop the effectiveness of risk management and control in an organization.

According to Jeffrey (2008), internal auditing is an independent analysis exercise done within an organization or a company for the examination of the organization's operations as a service to management. Internal auditing serves as a mana-

gerial control through which helps in measuring and analyzing the effectiveness of other controls in an organization.

From the two above definitions of internal auditing, it can be explained as the evaluation and monitoring of an organization's operations as well as the organization's business structure and information system. Internal auditing is established to examine what an organization does in order to find promising threats towards the organization's profitability and also give advice for the lessening of problems in connection with those threats in order to increase profit (Jeffrey 2008).

In recent days, there is more awareness of how effectively internal audit in an organization or a company helps in good corporate governance. Most companies now build a strong internal audit section and also invest more funds in that section. Internal auditing is thus identified as the service to the organization or company (Jeffrey 2008).

2.5.1 Limitations of Internal Auditing

The cost of installing and maintaining an internal audit department depends on the number of internal employees the organization employs. It becomes expensive when an organization employs more internal auditors. It involves the process of recruiting qualified accountants and other assistants to assist in managing the activities in the department, salaries and other travelling cost. Due to such reason, internal audit departments are mostly found in large companies or organizations than in small companies or organizations. The large organizations are able to pay for such extra cost of installing and maintaining the internal audit department (Gary & Curtis 2010, 334-335).

The suggestions and opinion by the internal audit department are sometimes ignored or rejected by the management and thus discouraging hard efforts of the internal audit department. This turns to develop an uncaring attitude of the internal audit department function and thus leads to inefficiencies. In addition, errors and frauds may be left unfound due to the frustration given by the management in the organization (Picket 2011).

Another limitation of internal audit is that the staff in the internal audit department may be inexperienced. An organization may not be gaining the full benefits of that department due to the lack of experienced staff in the internal audit department and thus may be no improvements in the business operations of the organization (Picket 2011).

2.5.2 Importance of Internal Auditors

The internal auditor is mostly seen as a critical friend in an organization. The internal audit department provides important services to an organization's management. Establishing an internal audit department in an organization or a small business provides an important step in the business growth and creates value for the company (Ann 2009, 4-6).

Small businesses may require internal audit functions even bigger than bigger companies. Small businesses lose a lot of money every year through employee theft. The types of fraud mostly used by employees to steal from small businesses include embezzlement, phantom vendors, theft of inventory, misuse of company credit cards and improper payroll transactions. Many small businesses believe that they lack enough funds to establish internal audit in the business environment and due to these reason employees takes advantage of it. However, small businesses may establish a program for checking the behaviors of employees. Also an internal auditing financial transactions policy being announced for fraud may prevent employees from misusing small businesses or company's resources (Ann 2009, 4-6).

2.5.3 Code of Ethics of Internal Auditors

A code of ethics is very important and needed for the profession of internal auditing. The code of ethics gives guidance to internal auditors who provide auditing services to others (Picket 2011). The auditing profession is assigned with producing a high standard of audit service to the various organizations. The auditors are charged providing their duties with high moral standards. The code of ethics

serves as a contract to take care of the auditor's moral obligations. The codes of ethics are explained below:

- **Integrity:** the integrity of internal auditors creates trust and thus gives the basis for confidence in their evaluation. The internal auditors shall accomplish their duties with honesty, diligence and responsibility to the organization. The internal auditor shall take notice of the law and acknowledge expectations by the law and the profession. The internal auditor shall respect the ethical goals of the organization and also contribute to the accepted and ethical goals of the organization.
- **Objectivity:** it is part of the culture of the audit profession to be objective in gathering, analyzing and communicating information about the activity evaluated. Internal auditors are not influenced by their own interest during the course of the duty but make a balanced evaluation of all important activities. The internal auditor shall not take part in any activity in the organization that may hinder or assumed to hinder their unbiased evaluation. That is the internal auditor shall not involve in any relationship that may be in conflict with the organization's interest. The internal auditor shall not receive or accept anything from anyone in the organization that may hinder or assumed to hinder their unbiased evaluation. The internal auditor shall reveal all material facts they use in their work, and if not revealed may hinder the reporting activities under examination.
- **Confidentiality:** Internal auditors protect information they receive and do not reveal the information without any appropriate authority. Internal auditors shall be cautious in the use and guiding of information collected in the course of their work and thus shall handle all information acquired with extra care. The internal auditor shall not use information acquired for any personal benefit that would be conflicting to the legal and ethical goals of the organization.
- **Competency:** internal auditors assist the organization by applying their knowledge, skills and experience in performing internal auditing services. The internal auditor shall participate only in those activities they have cer-

tain knowledge and experienced. The internal auditor shall provide internal audit services in conformity with the International Standards for the internal auditing profession practice. The internal auditor shall continually develop their quality of their services they provide to the organization (Sazena et al. 2010).

2.5.4 Internal Audit Roles and Responsibilities

The important roles and responsibilities of internal audit function are outlined below:

- The internal audit examines and gives an understandable assurance that the organization's or company's risk management and control are being run successfully and will assist in attaining the organization's aims and objectives.
- The Internal audit department reviews the level of compliance in the organization. That is, internal audit ensures that the organization follows the rules, regulations, laws, codes of practice and guidelines as found in the various parts of the organization.
- The internal audit involves in a continues education of the staff and also the development of the staff
- Establish and maintains an open communication with the management of the organization and also the audit committee.
- Associate with the internal and external resources in the organization (Picket 2011).

2.5.5 Internal Auditors dealing with people

The internal audit work cannot be accomplished in the audit department without any association with the management and operatives of the organization. The main aim of the internal audit is providing good advice to the management of an organization on their system of risk and control. That is, the internal auditor needs a clear understanding of the organization's systems as a very important factor to

his or her effective audit work. Internal auditing has been known as work with the people and that less quality audit work will be provided by the internal auditor if the people interaction is missing.

An effective audit work can be done by an auditor who extracts information from various sources in an organization in an effective way. This can be accomplished by talking to people, asking them lot of questions throughout the audit work. The following contacts are an example of groups the auditor communicates with during the audit process:

- Operational managers
- Corporate managers
- External auditors
- Officials and lawyers
- Local police and the fraud squad
- Operatives
- Government officials
- Finance and computer specialists
- Staff from other internal review agencies
- The organization's clients

The internal auditor uses different modes of communication when dealing with the above groups. Thus the internal auditor needs to be flexible in the meetings with these groups in order to meet their expectations and at the same time meet the audit objective (Picket 2011).

The internal auditor may encounter certain difficulties during the audit process. These obstacles are mostly associated with the behavioral aspect of work. Auditors in an organization are mostly seen as checkers who spend time going through lots of documents and records in an organization. Through this, managements of an organization may treat auditors as people with a limited role in an organization and also sometimes see auditors with disdain. There may be imbalance in the audit work when auditors are checking some of the documents that relate to the op-

erational area while the operational management is also busy doing his or her main work. This put the auditor at a disadvantage. The following are some internal audit services that an organization expects from an auditor:

- To verify on remote establishment to ensure that the organization complies with procedures
- A thorough check of frauds in the areas they have been detected within an organization.
- A thorough check into employees who are suspected by management to be breaching the procedures in an organization.
- A continues program of investigations of the documents from various financial systems to evaluate whether they are correct.
- Give an on-the-spot advice to management as to whether decisions taken by management are satisfactory in compliance with procedures.
- Provide additional resources for computer development projects in an organization.

From the above expectations of the management of an organization create a major obstacle for the internal audit work. The internal audit work can be viewed in two ways. The first part defines what the client wants and thus the internal auditor must perform his duties according to the client expectation. The second part states that the internal auditor should perform a professional audit service to the client by advising management of an organization on systems of risk management and internal control (Picket 2011).

When internal auditors fail to act according to management expectations, it put them in a high risk in the long term thus losing their jobs and also when they perform the above work expectations will turn them into management consultants. In this situation, the best rules used in managing may be set out as:

- Group the clients into two ranges. That is the audit committee who will represent the client for the audit work and the second range as managers who will be giving additional consultancy services.

- The audit committee must understand the concepts of planned audit systems. Part of the resources must be reserved for this job.
- Brochures containing the audit role of an auditor must be publicize or distributed within the organization. Audit role may also be publicized through the website presentation and correspondence.
- Advise managers of an organization to abduct a long-term view in the promotion of sound controls in the organization. This will turn to avoid the many obstacles that are gotten from the poor planning of the managers (Picket 2011).

2.5.6 Internal Auditor Appraisal Scheme

Designing an auditor performance appraisal scheme is one thing but applying it in such a way to achieve the required result is another thing. Normally what has been put on paper differs from what is in practice and thus it is quite easier to write them on a paper but practicing it becomes difficult. Matters to be considered in internal auditor appraisal scheme include:

- The appraisal scheme must identify the auditor's performance. The scheme should not be another means of eliminating a staff that causes problems. The scheme should not be just a paper exercise. The scheme must be done to evaluate and promote the performance of internal auditors at various levels in the internal audit department.
- The appraisal scheme should meet the employee's needs, thus the scheme should gather feedback on the employees performance, achievement and approach towards to task. This can be seen by staff as means for providing all necessary feedback to another management.
- The appraisal scheme should appear as a great challenge to the internal auditor.
- The appraisal scheme must establish the idea of normal or daily progress reporting of the internal audit department. This provides a good result than an annual scheme which shows a report that appears out of every 12

months. A regular evaluation makes it easier to absorb the scheme into daily task that the internal auditor carries out.

- An internal auditor can put up a career plan. This can be done as far as there is an awareness of the sectors that have been improved and the other areas that need further improvement. This can easily be done through the performance appraisal scheme which set apart an employee's strengths and weaknesses.
- The appraisal should recognize the various personal objectives of each auditor. This will help create a bridge between the auditor's targets and the organizations targets (Picket 2010, 722-730).

2.5.7 Internal Audit Reports

Internal auditors normally give out reports at the end of their audit work. The reports summarize the findings, recommendations and any responses from the company's management from the audit work being conducted. The internal audit reports are normally structured in the following form; an executive summary, a body that consist of the exact findings recognized and recommendations, and appendix information used such as graphs and charts. The findings derived from the audit work may include five elements. That is, the condition, criteria, cause, consequence and corrective action. The recommendations giving by internal auditors in an internal audit report assist management of an organization to attain effective and efficient governance, risk and control processes with operations (Richard 2007, 158-159).

3 RESEARCH METHODOLOGY

In the earlier chapter of the thesis, important theoretical writings on the topic of the study were reviewed in detail by the researcher. In this part of the thesis, focus will be on the research methodology that will be used for the study. It will be explained in detail, taking into consideration the introduction of research methods used, sample selection and data analysis and data collection. The validity and reliability of the research will be discussed at the end of this chapter.

According to Wayne & Stuart (2004), research does not only involve the process of gathering information, but it also involves the answering of unanswered questions or creating something that does not exist at present. Research thus can be seen as the method of expanding the barrier of our ignorance.

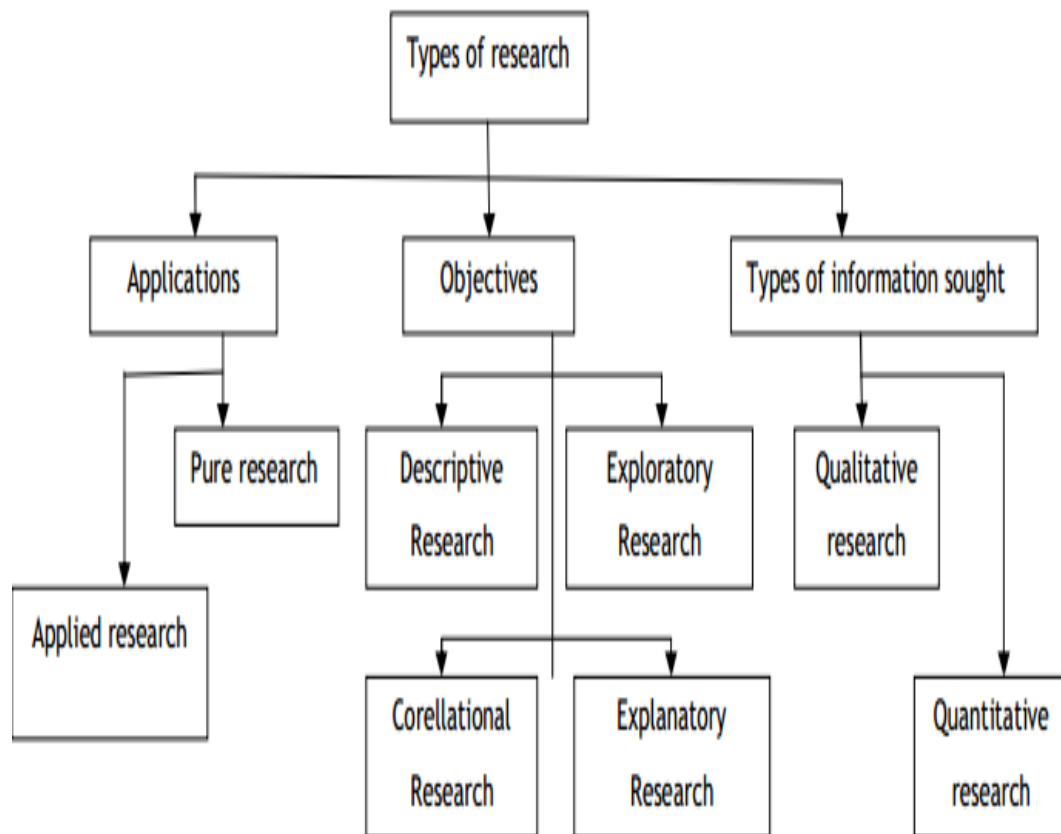
3.1 Research Purpose

The purpose of the research work is to identify the importance of internal auditors in a company and what the internal auditors exactly do in a company.

3.2 Types of Research

For anything to qualify as a research, the process or method must have certain characteristics such as, be controlled, rigorous, systematic, valid and verifiable, empirical and critical (Ranjit 2010, 9-10).

Research can be classified into three (3) main groups taking into consideration the application of the research work, its purpose of undertaking the research and how the information is gathered. Each main group can be subdivided into different types as shown below:



Source: (Ranjit 2010, 9-10).

Fig 2: Types of Research

3.3 Comparison between Qualitative and Quantitative

Difference with respect to:	Quantitative research	Qualitative research
Approach to research	It is structured methodology.	It is unstructured methodology.
Sample size	It stress on bigger sample size.	It stress on fewer sample size or case.
Analytical objectives	It objective is to describe the characteristics of a population.	It objective is to describe an individual experiences and also to describe group norms.
Tools	Methods used are questionnaires, surveys and structured observation	Methods used are in-depth interviews, participant observation and focus groups.

Source: (Ranjit 2010, 20-21).

Table 1: Comparison between quantitative research and qualitative research.

3.4 Research Method Used in the Research

It is very difficult to say whether a qualitative research method or quantitative research method is important, instead the most suitable research method depends upon the research question used by the researcher (David 2010). However with a purpose to understand the internal auditor's role and responsibility, it is possible to study the problem from many other angles.

The main research methods adopted will be qualitative research method where emphasis will be on the subjective and the understanding of the human experience. The choice of a qualitative research method loses some of the advantages that come with a quantitative research method. One clear advantage is quantitative research method is that the research structured with the idea of getting some information from the respondents (Bamberger 2000, 112).

One advantage of the choice of qualitative research method is that more details can be studied (Bamberger 2000, 112) Focused groups will be used.

3.5 Sample Selection

When choosing a sample to operate a research on, it is necessary that the case is important for the purpose of the study, and also make sure that the respondent is highly educated in the subject of the study (Holme and Solvang, 1991).

3.6 Data Collection

In this thesis, two types of data are used. The primary data collection and secondary collection. The information included in the data collection determines whether the data is primary or secondary. Acquiring primary data might be expensive when carrying out a research. Cost incurred may include producing paper used for the questionnaires or the equipment used for an experiment. Primary data requires development of a research plan. Primary data consist of explanation of the rationale of the research, its subjects, materials, procedure and results (Bordens & Abbot 2011, 69).

Primary data used in this research work is the questionnaires that will be acquired from the respondents after been answered by them. The questionnaires design by the researcher shows as the primary source of data for this thesis work. The questionnaires are drafted to gather the important information from the targeted respondents. Thus, such data does not exist and require the researcher to search for the data by analyzing and keeping records of it after information gathered. The data will be acquired by giving out questionnaires to respondents to answer and give their opinions base on the experience they have at the comfort of their offices or homes.

The other data collection used is the secondary data. A secondary source summarizes data acquired from primary sources. It consists of review papers and theoretical articles that briefly explain the studies and results as well as the explanations of research discovered in company websites, textbooks, newspapers, magazines, television programs, films or lectures(Bordens et al. 2011, 69).

The important secondary data that are used in the empirical study are acquired from the organization's web page and also other important sources found that have enough information about the organizations used in the study.

3.7 Validity and Reliability

The validity of any measure is the range to which it measures exactly what it intend to measure (Bordens et al. 2011, 133).

In every type of research, whether been done or yet to be done, there are mistakes in it. This is because there will be difference between the research work done and the real value. Unlikely, there will be no way to find out the real value of it, if the real value were known, then there will be no need to do a research. Mostly, reliability and validity are used to determine the mistakes in the research (Raymond 2007, 141).

In this thesis, I predict the results to be valid, since the respondents who had the chance to answer the questionnaires sent out are from selected internal auditors in

a company in Ghana. Validity of this research was achieved since the personnel who had the opportunity to answer the questionnaires had adequate knowledge in accounting and auditing sector. In addition, the validity of the questionnaires can be determined as concrete since the necessary information needed in the questionnaires giving out was correctly given by the respondents.

In this research work, the researcher has targeted a minimum of two questionnaires to be answered by the respondents in the two companies.

4 EMPIRICAL STUDY AND FINDINGS

The methods used in gathering data for the thesis were clearly discussed in the previous chapter. This assisted in obtaining the necessary information needed for the thesis by the researcher. In this chapter, a brief background of the case companies selected will be discussed and also information of Ghana where the companies are located. The companies are Kasapreko Company Limited (KCL) and Lintas Ghana Limited.

Also in this chapter, findings from the research are examined and conclusions are made. In other for such examination to be done, the researcher used a research method to identify data from respondents. In this case, the main research methods adopted will be qualitative research where questionnaires were delivered to experts in the two companies used in this research work.

4.1 Introduction of Case Companies

4.1.1 Lintas Ghana Limited

Lintas Ghana Limited (Ltd) is an advertising and media agency for integrated communication and information formed about 70 years ago with international affiliation to Lowe South Africa.

Lintas Ghana Limited (Ltd) has a staff of up to 50 people with diverse background in advertising, media communication, marketing, accounting and strategic management.

Lintas Ghana Limited total bills per year average \$500,000 and controls more than 60% of the total market share in the country (Ghana). The company currently developed a niche for print and electronic media advertisements companies.

4.1.2 Kasapreko Company Limited (KCL)

Kasapreko Company Limited (KCL) is a private company established in the year 1989. Kasapreko Company Limited started operation with only four workers and

has now grown into a multinational company in Ghana. Currently the company has over 160 employees in Ghana and employs over 2,000 workers indirectly. Kasapreko Company Limited currently contributes about 50 percent command of the Ghanaian market share in the liquor industries. The company's main export market is the flagship brand, Alomo Bitters of which 30 percent are exported into the Nigerian market. In whole, 32 percent of the company's products are exported abroad.

Among the local manufacturers of liquor Kasapreko Company limited was the first company to establish a quality control and products development into their daily operations. All products of Kasapreko Company Limited are puts under one brand name which is known as *Kasapreko*. The company has in total 15 brands. The products include, Kasapreko Brandy, Alomo Bitters, Cardinal Liqueur, Cocoa Liqueur, Dry Gin, Kasapak, Lime Cordial, Ogidigidi, Opeimu Bitters, Kasavino, Tonic Wine, and Kalahari. The company's products are very strong and known brand across the Ghana.

4.2 Findings from Interviews

The thesis aims at identifying the importance of internal auditors and their key role in a company. After conducting an interview with the two case companies, some answers were collected and were presented in the manner in which the questions were given.

Two internal auditors of the case companies were asked some key questions about the importance of internal auditors and their answers are compared below. In other to exhibit anonymity which was promised to the case companies, Company "X" and Company "Y" will used instead of their real names.

Q1. In your opinion, what are the benefits of internal auditors?

Case Company X

According to the case company in question, there are several benefits which the company derives from the internal auditors. The findings pointed out that it is very important to keep the internal audit departments in every organization and also helps the system run efficiently and effectively in an organization. The findings also revealed that auditing assists in checking whether the accounting and internal control systems are working correctly. According to the case company internal auditing helps to check whether the accounting and internal control systems work correctly thus it helps to measure the reliability and confidentiality of financial reporting.

Also an internal auditor advises the company to comply with the statutory and accounting and auditing standards. Accounting and auditing standards require companies to follow certain rules and regulations when preparing and auditing financial statements. One main standard the company uses is the International Financial Reporting Standards.

In addition to the above stated benefits of internal auditors, they also advise management on proper and working internal controls. Internal auditors thus help to ensure efficient and effective usage of company funds. This assists to avoid theft and embezzlement of the company funds and also easy tax assessment to be payable to the appropriate authorities.

Case Company Y

According to the case company in question, internal auditors play the role of financial checks and balances in the company. This helps to avoid putting the finances of the company at risk. This means that an internal auditor of the company examines the financial statements of the company which help reveal financial theft and embezzlement of funds and efficient allocation and usage of company resources. This will help the case company to increase profit at a minimum cost.

Q2. What exactly do Internal Auditors do in your company?

Case Company X

According to the case company in question, the following functions are performed by their internal auditors:

The internal audit department checks if the company has proper internal control systems. The internal audit department helps to check whether the financial resources of the company are used effectively and efficiently. Through this, the company will achieve profit maximization at a minimum cost.

Also, the internal auditors ensure that the company complies to the laid down policies, procedures and also with the statutory accounting standards and auditing standards in the preparation and examination of financial statements of the company thus complying with the laid down rules and regulations which are acceptable globally in the preparation and examination of financial statements of companies.

Moreover internal auditors ensure the reduction of wastages and help to improve the efficient way of using company resources.

Case Company Y

According to the case company in question, internal auditors monitor raw materials used for production of various products of the company. The company uses raw materials to produce alcoholic beverages and internal auditors monitor the usage of these materials to reduce wastages. In addition to the above, internal auditors also ensure that all the logistics brought into the company are used for what they are meant for. They ensure efficient allocation of company resources which will help minimize wastages and maximize profit.

Also internal auditors monitor the cash flow of the company being either receipts from company sales or payments for all expenses incurred by the company.

Q3. What are some codes of ethics of Internal Auditors?

Case Company X

According to the case company in question, the code of ethics in the examination of financial statements of companies is similar no matter the activity the organization involves in. Code of ethics refers to the set of rules and regulations that outlines the responsibilities for the internal auditors in the examination of the financial statements. Some of the code of ethics which were outlined by the case company in question includes:

Objectivity, Independent, High integrity and fair.

Case Company Y

According to the case company in question, internal auditors are seen as integral part of the management and must be impartial, fair and fair, objective and comply with the rules and regulations of the company. In addition, there should be no discrimination in serving clients and customers being it on the grounds of gender, ethnicity, sovereignty, sexual orientation and religion. This means internal auditors must treat everyone equally when called to duty. Moreover, internal auditors must ensure the highest quality and most efficient, cost effective and professional delivery of their service. In addition, internal auditors must respect the code of ethics of accountability, transparency, simplicity and also understand procedures in the delivery of their services.

Q4. Do you normally give out an audit work report after the audit work?

Case Company X

Yes

Case Company Y

Yes

Q5. If yes what does the report contain?

Case Company X

In reference to the above asked question (Q4), the auditors of the company in question gives out an audit report after every audit work. The report contains the audit procedures, use and findings. The audit report also contains weaknesses of the financial statements and also recommendations.

In addition the report also provides the auditors opinion on the particular audit work carried out.

Case Company Y

According to company Y, the internal auditors also provide an audit report after an audit work. The report given out contains findings and recommendation.

Q6. Do you face challenges in Internal Auditing? (Yes/No)

Case Company X

Yes

Case Company Y

Yes

Q7. If yes what are some of these challenges.

Case Company X

In reference to the above asked question (Q6), the main challenges the internal auditors face in the company are their suggestions and opinions that are sometimes ignored by the management of the company and that discourages the hard efforts of the internal audit department.

Case Company Y

In reference to the above asked question (Q6), some major challenges the internal audit department face as far as examining the financial statements of the company includes: complex information technology environment. The software which is

used to aid in auditing seem very complex to the internal auditors. The auditing work as a result of this takes much time more than expected. In addition, another challenge the company faces as far as auditing is concern is widespread corruption. One of the main codes of ethics in auditing is honesty, free and fair in examination of the statement and also with regard to findings and recommendation. According to the case company in question, the internal audit department tends to favor the company in order to reduce tax to be paid to the appropriate authorities.

Also, other minor challenges the audit department faces include change in resistance and danger of importing system error in auditing.

5 CONCLUSIONS AND SUGGESTION

5.1 Summarizing main issues

Accounting can be defined as a method or action which involves recording, measuring, interpreting and communicating information concerning the economic wealth and income (Jack 2001, 1-2). Personnel or individuals who go through this process in both private and public organizations are called Accountants. Auditing on the other hand is an independent examination of financial statements of these organizations (Sazena et al. 2010).

Normally after the audit work personnel or individuals who are in charge of conducting this responsibility gives feedback which includes opinion and recommendations to these organizations or companies (Richard 2007, 158-159).

Some of the importance of internal auditors include: propose problems identified in the financial statements and possible solutions to these problems. Internal auditors also provide information to management for effective control. Internal auditors do this through checking whether the accounting and internal control systems of the organization or company are working properly (Sazena et al. 2010).

In addition, internal auditors through examination of the financial statements assist in identifying inefficiencies in the financial statements and areas where improvement can be made in the organization systems. Internal auditors help to prevent fraud and misuse of company financial resources. Through examination, internal auditors are able to identify loop holes such as: overpayments, underpayments, incorrect invoices and other cases which contribute to fraud and embezzlement of company resources. In addition to the above internal auditors help to build up working effort in the organization (Sazena et al. 2010).

Also, internal auditors give advice to the company to comply with statutory accounting and auditing standards. Companies are obliged to prepare financial statements based on certain rules and regulations which are set up by accounting body. These standards help accountants to easily perform duties and to help

reduce fraud in the preparation of financial statements. Internal auditors after examination of these statements are able to identify whether these statements are prepared based on these standards and principles provided. Internal auditors help the company to ensure the effective and efficient utilization of company resources (Sazena et al. 2010).

There are some guidelines to follow in the practice of the auditing profession. These laid down rules and regulations are referred to as code of ethics. The code of ethics as stated are similar among all companies or organizations that hire the services of internal auditors. Some of the code of ethics includes:

- High standard of audit services. In the practice of this profession, internal auditors must perform his or her duties with high moral standards. This means that in the act of performing their duties, internal auditors must refrain from bribery and corruption and any self-interest (Sazena et al. 2010).
- In addition, internal auditors must keep any information confidential and must make sure information is not released to any third parties. Information when released to third parties can affect the competitive advantage of the company (Sazena et al. 2010).
- Also internal auditors must be competent on their job. Being competent on the job means since auditors examine the financial statements prepared by accountant, internal auditors are expected to have adequate knowledge in accounting profession. Thus must have a good accounting background. Internal auditors before venturing into auditing services should have both theoretical and practical knowledge in accounting and the auditing profession. Internal auditors in performing their duties must demonstrate high standard of objectivity. Internal Auditors must refrain from fear or favor and any self interest in performing their duties. Internal auditors must be impartial and comply with laid down rules and regulations of the company. Internal auditors must not discriminate in

serving clients and customers on the grounds of gender, ethnicity, sovereignty, sexual orientation or religion (Sazena et al. 2010).

- Internal auditors must be true and fair in discharging duties in the company. Auditing is defined as the independent examination of the financial statement of a business organization, hence as shown in the definition internal auditors must be independent during examination of financial statements. Internal auditors must be left alone to perform their duties and also in the case of findings and recommendation after the audit work (Sazena et al. 2010).

5.2 Conclusion

From the research conducted, it was found that the two case companies used in this thesis all have internal auditors and also internal department in the company premises. The case companies turn to be in existence for a long time and have grown to experience the benefits and importance of keeping internal auditors in company even when external auditors does the final checking of the financial statements. The case companies through internal auditing assist in checking whether the accounting and internal control systems are working correctly in the company. Recommendations giving by internal auditors help management of a company to achieve effective and effective control systems (Richard 2007, 158-159).

The research also showed that every auditor being internal or external has to acquire little knowledge about accounting. He or she must know how the accounting systems run in other to perform a successful audit work for the company he or she works in. Thus, an auditor must perform his or her duties with care and diligence as expected of the accounting profession and also in accordance to the generally accepted auditing standards (Sazena et al. 2010).

It was shown in the research that internal auditors always face the changes in information technology and thus always slow down the audit process which at the end increases the audit cost.

Finally, from the research done, it was shown that audit reports are very important at the end of the audit work and must be done by the internal auditors for a successful audit work. The audit report thus contains the audit procedures, use and findings. This helps show the weaknesses of the accounting systems used by the company and also gives out recommendations that if used by the company will help solve those weaknesses of the company (Richard 2007, 158-159).

5.3 Recommendation

For a better conclusion of this thesis, certain recommendations must be given by the researcher based on his own conclusions. These recommendations could help realize the real benefit of maintaining internal auditors in a company. Below are some recommendations based on the research results.

Most audit firms in developing countries where lobbying breeds bribery, corruption and favoritism are common factors that distract internal auditors in discharging their duties. From the interview, the case companies have some major challenges internal auditors face during the audit work. Some of these include sophisticated information technology environment. Accountants in this company employ the use of some major software in entering data. Most of the internal auditors lack adequate knowledge in the use of these accounting software, hence it is recommended that companies should adequately train staff and personnel of the internal audit department to gain knowledge in the use of this software.

Another major setback which is peculiar to almost all companies is corruption. The internal auditors are therefore unable to give a fair opinion which shows a true reflection of the financial statement. It is recommended for the company to put adequate measures in place in order to curtail these major setbacks.

In the area of disbursement and purchasing, duties must be assigned separately to people or personnel concerning approval of purchases, receiving and reconciling transactions to the financial documents. Thus every purchase made must be approved only by an authorized personnel or individual and also disburse-

ments are backed by necessary documentation which includes invoices, purchase authorization and also evidence showing that goods and services were received by authorized individual.

5.4 Suggestions for Future Research

The focus of this research has been to examine the importance of internal auditors in a company and the focus was on Lintas Ghana limited and Kasapreko Ghana limited. Also the challenges internal auditor's faces were analyzed.

From the above research done, the researcher suggest that future studies into the importance of internal auditors in a company could be done by taking into consideration the following suggestions below:

1. The time involved in the conducting of this thesis was limited hence only two case companies were used. For more accurate information, it is suggested that more than two case companies should be involve in the interview process. This thus will turn to improve upon reliability of the results arrive at but not necessary a clearer picture about the true situation at hand.
2. A quantitative research about the importance of external auditors in a company could also be done alongside the importance of internal auditors in a company to get a clearer and fairer view about the importance of auditors to a company.

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APPENDICES

Questionnaires to internal auditors of Lintas Ghana ltd and Kasapreko Ghana ltd

1. Qualitative Research Questions

TO WHOM IT MAY CONCERN

I am a Ghanaian studying my bachelors in Business Administration (International Business in Vaasa University of Applied Sciences- Finland.

I am carrying out a qualitative research on the topic “Importance of Internal auditors of a company”.

I am sending this questionnaire to you to help me with your answers in order to write my thesis as a partial fulfillment of obtaining my Bachelors in the above mentioned school.

The questionnaire is designed to take 15-20 minutes of your time and I promise to treat views expressed confidential as possible.

I am counting on your co-operation to help me do my empirical study in my thesis. Attached is the questionnaire. Thank you.

Yours Sincerely,

Mathew Sey.

e1200014.

Questionnaire Guide for Interview

Please answer the following questions.

1. In your opinion, what are the benefits of internal auditors?

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.....
.....

2. What exactly do Internal Auditors do in your company?

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.....
.....

3. What are some code and ethics of Internal Auditors?

.....
.....
.....

4. Do you normal give out an audit work report after the audit work?
(Yes/No)

.....

5. If yes what does the report contain?

.....
.....
.....

6. Do you face challenges in Internal Auditing? (Yes/No)

.....

7. If yes what are some of these challenges.

.....
.....
.....