

Audit Committees and Internal Audits: Has Corporate Governance Improved in the Ministries' Department and Agencies?

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Abstract: *This research aimed to determine whether corporate governance has improved since implementing an Audit Committee. Primary data was collected through questionnaires to facilitate analysis. The study utilized the PLS - SEM method with smart - PLS to examine the relationship between variables. The results revealed a positive correlation between the corporate governance of Ghana's Ministries Departments and Agencies (MDAs) and the audit committee and team characteristics since the introduction of the Audit Committee. Additionally, the findings indicated that an efficient audit process is closely tied to the audit committee, internal audit function, and corporate governance of MDAs. These results provide valuable insights for generating policies related to corporate governance, using audit committee and internal audit function characteristics.*

1. Background

Organizations undergo audits to provide credibility and confidence to shareholders and stakeholders that their records represent a true and fair view of the state of affairs. The success of the audit depends on its quality. A high - quality audit is important for companies as it demonstrates the genuine financial status of the organization, ensures the accuracy of the books of accounts, and prevents employee fraud and dishonesty (Xiao et al., 2020). This also increases organizational goodwill and credibility.

Businesses can obtain loans and financing quickly through auditing. Banks and other financial institutions use audited books of accounts to determine the financial standing of a company entity. Thus, organizations can obtain loans and secure long - term funding for the firm based on their audited financial accounts over the past five years (Sun et al., 2020).

An audit committee is responsible for overseeing the financial reporting process and selecting personnel to serve as internal and external auditors. They are accountable for adhering to the guidelines created and enforced by the audit committee to ensure the internal audit function can better review financial accounts, confirm their accuracy, and report results about these statements accurately (Kallunki et al., 2019).

The internal auditing function must be effective to deter fraud and monitor internal control. Internal auditors must be independent to be effective. The effectiveness of the audit committee in fulfilling its responsibility to the minister depends on the ability of the audit committees and internal auditing to work together (Christ et al., 2021).

Overall, corporate governance is essential for organizational performance and success. It is crucial to research and share the qualities of an audit with businesses and their stakeholders. The composition of the audit committee, their activities, and their results significantly impact the effectiveness of the audit committee in fulfilling its responsibility to the minister. (Lisic, 2019)

The presence of an audit committee is crucial for enhancing organizational standing and autonomy of internal auditing. This, in turn, is important in deterring fraud and monitoring internal control (Al Matari, 2017). The type of relationship between the audit committee and internal audit significantly influences the efficacy of internal control and internal audit. Press reports have highlighted the subpar performance of audits carried out on governmental institutions in Ghana (Weickgenannt 2021). These institutions have been accused of exhibiting substandard and untrustworthy service, a deficiency in accountability and transparency, instances of corruption, inadequate utilization of public funds, and depletion of Treasury resources.

According to Section 30 (1) of the Audit Service Act, 2000 Act 658, every institution subject to audit by the Auditor - General, including Metropolitan, Municipal, and District Assemblies (MMDAs) and Ministries, Departments, and Agencies (MDAs), must establish an Audit Report Implementation Committee (ARIC) to ensure the implementation of recommendations outlined in audit reports. Section 16 (8) of the Internal Audit Act, 2003, Act 584 underlines the importance of adhering to Section 30 (1) of Act 658.

The Audit Report Implementation Committee (ARIC) was later changed to Audit Committee (AC) in the Public Financial Management Act 2016, Act 954, Section 86 to enhance the supervisory role of the Audit Committee. One of the three independent members chosen by the Institute of Chartered Accountants, Ghana, and the Internal Audit Agency holds the chairperson position of the committee. The primary aim is to ensure that the leader of a regulated organization actively pursues the execution of any suggestions outlined in audit and monitoring reports. The objective is to enhance internal controls and mitigate instances of audit violations, according to the PFM ACT 2016.

The Parliamentary Standing Committee on Public Accounts consistently reprimands public institutions for their repeated violations of financial norms and acts. Despite audit committees being present in the governance structures of

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most MDAs, the issues that arise with these committees raise doubts about their usefulness in the governance processes. There is limited empirical information about the correlation between the makeup of the audit committee, their overall functioning, and the influence of their role in enhancing internal controls. The objective of this thesis is to evaluate the extent to which the implementation of an audit committee has contributed to the enhancement of corporate governance practices.

2. Theoretical Framework

Agency Theory

According to Panda's research from 2017, agency theory postulates that a fundamental conflict of interest exists between principals/shareholders and agents/managers. This theory suggests that corporate directors may prioritize their gain over maximizing returns for shareholders. Because of this divergence in objectives, shareholders must implement strict oversight measures to protect their interests. As a result, mechanisms such as the board and AC are established to oversee managers and prevent opportunistic behavior, as noted by Beasley et al. in 2009. One important aspect of an agent's responsibility is sharing information with principals, as highlighted by Abdo et al. in 2017. Unequal distribution of information can lead to agency difficulties, as indicated by Hussainey and Hassanein in 2017. Additionally, insufficient supervision of agents by principals can also result in agency issues. Clark noted in 2017 that moral hazards may arise when the contractual relationship between an agent and principal lacks strength, allowing the agent to engage in actions that may harm the principal's interests.

Stakeholder Theory

Stakeholder theory, similar to agency theory, has been widely adopted by scholars and researchers in various fields, including business and accounting (Bonnafeous - Boucher, 2016). This theory has been applied in several situations, such as research on corporate social responsibility, business ethics, and venture management (Freeman, 2015).

Unlike agency theory, stakeholder theory encompasses a broader range of stakeholders (Mallin, 2016). Advocates of the stakeholder model suggest that companies can only thrive by taking into account the input of various groups. They need societal support, as well as a favorable commercial and political climate. Clement (2017) asserts that several stakeholders, including lenders, consumers, workers, investors, auditors, the government, and the community, can exert financial, economic, social, technical, and environmental influences on an organization.

Managers should consider all those who have a vested interest in the company's operations and may be affected by its success or failure when making decision. (Stovall et al., 2019). According to Ayuso and Argandoa (2009), stakeholder theorists argue that firms have a moral responsibility to meet the legitimate expectations of different groups. They contend that by recognizing the interests of all stakeholders, organizations may enhance their profitability.

2.1 Characteristics of Audit Committees and Their Impact on Corporate governance

Three key qualities of audit committees, namely competence, independence, and meetings, have a significant impact on their operation and corporate governance. In 2019, Khudhair et al. conducted a study to understand how these qualities affect corporate governance. They collected data from non-financial enterprises in Ghana, evaluating it using the logit regression approach. The study revealed that the audit committee is responsible for overseeing the internal audit function and approving the annual audit plan of the internal audit unit. Agyei - Mensah (2019) investigated the relationship between audit committee efficacy, corporate governance, and reporting quality. They analyzed 144 firm-year observations of listed firms in Ghana from 2013 to 2016 and found that appropriately sized committees with qualified members who possess exceptional observational skills can oversee audit standards and improve outcomes, resulting in high corporate governance. Asiriwa et al. (2018) examined the impact of audit committee characteristics on audit correctness and found that committee size, member count, meeting frequency, and overall efficacy positively affect corporate governance. However, the significance of capacity and overall efficacy in achieving corporate governance is more pronounced.

H1: The characteristics of the audit committee have a positive impact on corporate governance.

2.2 Characteristics of Internal Audit Function and Their Impact on Corporate governance

The internal audit function's understanding of financial reports and other case-related matters can be improved by possessing favorable attributes such as an adequate number of auditors, substantial knowledge and experience, keen observation skills, cooperative disposition, and active involvement. This enables them to conduct a comprehensive audit that aligns with organisation's requirements and ensures transparency. Harris et al. (2020) investigated the corporate governance of four non-Big Four audit firms namely BDO, Mazars, DHG, and RSM, based on comment letters. The findings show that it is the responsibility of the internal audit function to execute the audit processes and that enhanced case management is a direct result of proficient communication, collaborative cooperation, and trust among team members. A robust internal audit function can detect and identify the sources of mistakes and fraudulent activities, thereby enhancing the quality of the audit. Heo et al. (2021) analyzed data on the responsiveness of internal audit functions to work imbalances and their impact on corporate governance. The study revealed that auditors face significant burdens during busy seasons, leading to difficulties in managing multiple audit engagements simultaneously. Prompt responsiveness is crucial to managing each audit engagement efficiently and generating precise reports. The literature supports the notion that the internal audit function's qualities play a vital role in the quality of audits.:

H2: The characteristics of the internal audit function have a positive impact on corporate governance.

2.3 Corporate governance and its mediating role between audit committee characteristics and corporate governance

The efficacy of the audit procedure is enhanced by the presence of an efficient audit committee. Several studies have investigated the correlation between the characteristics of a proficient audit process, the quality of audits, and the attributes of audit committees. In Ghana, Agyei – Mensah (2019) gathered 180 firm – year observations from publicly listed companies operating between 2013 and 2017 and found that the size, financial expertise, and previous experience of the audit committee were positively associated with enhanced audit procedures and ultimately improved corporate governance. In India, Al – Ahdal et al. (2022) conducted a study involving 100, 74 non – financial businesses included in the Nifty index from 2014 to 2019 and discovered that businesses with an appropriate size, knowledge, and audit effectiveness can effectively execute different audit procedures, leading to high – quality audits.

Streamlining the audit process through thorough, truthful, and regular verification facilitates the identification of mistakes and fraudulent activities and contributes to the heightened efficacy of the audit procedure. Employers who exhibit favorable treatment towards their workers and provide them with comprehensive resources tend to have a higher level of commitment to improving operational efficiency, and this is no different in the case of audit committees. An efficient and streamlined audit procedure improves the impact of audit committees with diverse characteristics on corporate governance.

Therefore, companies need to invest in developing a proficient audit committee and a streamlined audit process to ensure the highest level of operational efficiency and quality. This would require companies to identify the appropriate size, financial expertise, and previous experience of the audit committee, and streamline the audit process through regular verification and elimination of fraudulent activities. The ultimate goal is to ensure that the audit committee's objective of conducting a high – quality audit is effectively attained.

H3: Corporate governance plays a significant role in mediating between the characteristics of the audit committee and corporate governance.

2.4 Corporate governance and its mediating role between internal audit function characteristics and corporate governance

Organizations have two options when it comes to conducting internal audits: either they can engage the services of auditors from professional auditing companies or use a conventional internal internal audit function. The effectiveness of audit procedures is significantly influenced by the characteristics of the team members in both scenarios. Assuming the internal audit functions exhibit the requisite auditing characteristics, they are likely to perform better across diverse audit methods. Authentic audit reports are useful in executing audits of superior quality (Supriyatin et al., 2019).

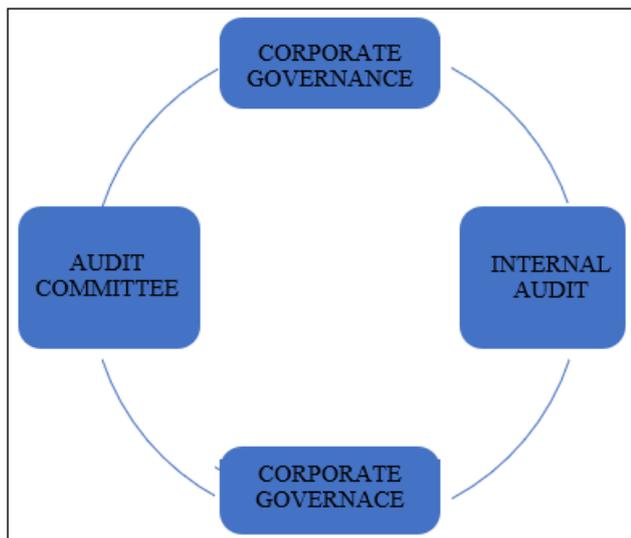
Cameran, Ditillo, and Pettinicchio (2018) conducted a study to examine the correlation between the characteristics of internal audit functions and the quality of audits. They analyzed data from two of the Big Four accounting firms in Italy from 2006 to 2009 and found that the internal audit function has more success in identifying fraud, submitting reports, and executing remedial actions when they are actively and efficiently involved in their tasks. The efficacy of the audit process is enhanced when the internal audit function exhibits favorable characteristics, and the level of corporate governance is elevated.

Christensen et al. (2021) examined the impact of two key attributes of internal audit functions, namely workload management and the regularity and continuity of team members, on the quality of audits. They used data obtained from a prominent accounting firm operating in the United States between 2008 and 2015 and found that the efficacy of audit procedures is enhanced when audit members and personnel demonstrate a higher level of commitment to the business and collaborate harmoniously in their execution. Consequently, a comprehensive audit is conducted.

Based on the literature study, it can be hypothesized that a corporate governance plays a significant role in mediating between the characteristics of the internal audit function and corporate governance (H4). Therefore, it is crucial for organizations to carefully consider the characteristics of their internal audit functions and ensure that their members are committed, efficient, and collaborative to achieve optimal corporate governance.

3. Research Methods

The study delves into the relationship between audit committee characteristics, internal audit function characteristics, and corporate governance in MDAs in Ghana. The audit committee and team characteristics are analyzed to determine their impact on corporate governance. To collect primary data, a questionnaire was created, which drew from previous studies such as Al - ahdal et al. (2022), Alleyne et al. (2019), Azzali et al. (2018), and Hazaea et al. (2020). The study's participants were MDAs auditors in Ghana, who were selected through simple random sampling. The researchers distributed 634 surveys via email, and 374 of them yielded valid responses, resulting in a response rate of approximately 58.99 percent. The study utilized PLS - SEM with smart - PLS to analyze the relationship between variables, as this tool is adept at handling small and large data sets and yields optimal results with primary data. The study's predictors were corporate governance and audit committee, while the dependent variable was internal audit, and the mediating variable was corporate governance.



4. Research Findings

The findings of the study reveal a strong correlation, known as convergent validity, among the items. Specifically, the results indicate that the average variance extracted (AVE) values exceed 0.50, factor loadings surpass 0.70, and composite reliability (CR) values exceed 0.70. These data points signify a valid convergent validity and a robust correlation among the items, as illustrated in Table 1.

Table 1: Convergent Validity

Constructs	Items	Loadings	Alpha	CR	AVE
Audit Committee	AC1	0.616	0.898	0.919	0.589
	AC2	0.630			
	AC3	0.705			
	AC4	0.887			
	AC5	0.785			
	AC6	0.794			
	AC7	0.807			
	AC8	0.865			
Corporate Governance	CG1	0.775	0.853	0.891	0.576
	CG2	0.762			
	CG3	0.764			
	CG4	0.771			
	CG6	0.744			
	CG7	0.735			
Internal Audit	IA1	0.786	0.863	0.898	0.595
	IA2	0.837			
	IA3	0.740			
	IA4	0.745			
	IA5	0.811			
	IA6	0.699			
Corporate governance	AQ1	0.879	0.868	0.905	0.659
	AQ2	0.867			
	AQ3	0.666			
	AQ4	0.819			
	AQ5	0.810			

The study's results demonstrate the correlation between the variables known as discriminant validity. The results show that heterotrait monotrait (HTMT) ratios are not greater than 0.85. These numbers exposed sound discriminant validity and a low correlation between the variables. These results are shown in Table 2.

Table 2: Discriminant Validity

	AC	CG	IA	AQ
AC				
CG	0.726			
IA	0.512	0.717		
AQ	0.476	0.749	0.569	

Measurement Model Assessment

The results showed that the audit committee and internal audit accept H1 and H2 and have a favorable association with the corporate governance practices of the MDAs in Ghana. The results also showed that the audit committee, internal audit function, and corporate governance practices of the MDAs in Ghana are significantly mediated by the efficient audit process, which also accepts H3 and H4. These associations are shown in Table 3.

Path Analysis

Relationships	Beta	SD.	T Statistics	P Values
AC -> CG	0.351	0.040	8.749	0.000
AC -> AQ	0.264	0.054	4.902	0.000
IA -> CG	0.283	0.050	5.695	0.000
IA -> AQ	0.379	0.055	6.893	0.000
EAP -> AQ	0.364	0.047	7.790	0.000
AC -> AQ -> CG	0.096	0.022	4.376	0.000
IA -> AQ -> CG	0.138	0.029	4.690	0.000

5. Discussions

The following text outlines a study that examines the impact of audit committees and internal audit functions on corporate governance practices in Ministries Department and Agencies (MDAs) in Ghana. The study found that a strong audit committee, with appropriate size and expertise, can establish rules and guidelines for auditors, make better decisions about changes to audit policies, and enhance corporate governance. Similarly, a positive internal audit function, characterized by effective communication, cooperative behavior, and trustworthiness, can successfully handle cases, deduce errors and frauds, and identify responsible entities, thereby improving corporate governance. The study also found that an efficient audit process acts as a bridge between the qualities of the audit committee and corporate governance, and that a high - quality audit can be achieved by bringing about positive changes in the characteristics of the audit committee and the internal audit function. Overall, the study offers useful insights into how corporate governance practices can be improved, and recommends policies to enhance the quality of audit committees and internal audit functions to produce effective corporate governance.

6. Implications

This study is a valuable contribution to the academic community, as it builds upon existing literature by examining the correlation between audit committee's experience, internal audit function and corporate governance. The authors' research is particularly noteworthy for its exploration of the mediating role of a robust audit process in establishing this connection. Through the analysis of MDAs in Ghana, the author provided insights into how corporate governance can be enhanced, which is a crucial need for growing businesses. The report recommends measures to improve the efficacy of

audit committees and to prioritize the individual and collective attributes of the internal audit function. By implementing these suggestions, companies can execute audits of superior quality. The research suggests that to enhance the effectiveness of the audit process, employers should focus on favorable modifications to audit committees and internal audit function. Ultimately, this study uses audit committee and internal audit function to establish policies that are associated with corporate governance and provides actionable recommendations for firms operating in Ghana and comparable countries.

7. Conclusion

The objective of the research was to explore the effects of the attributes of the audit committee and internal audit function on corporate governance. The primary goal of the study was to examine how the audit process is impacted by the relationship between corporate governance and the audit committee and internal audit function. The MDAs provided the study with information on the efficient audit procedure, attributes of the audit committee, features of the internal audit function, and the corporate governance. The research revealed a positive correlation between corporate governance, audit committees, and the internal audit function. The findings suggest that audit committee members demonstrated increased efficiency in advising Management to implement the recommendations contained in audit reports, which in turn contributes to effective corporate governance. This improvement is dependent on their sense of responsibility for their jobs and the cultivation of essential attributes. The results indicate that the performance of the internal audit function is enhanced when they cultivate essential qualities, including collaboration, effective communication, trustworthiness, observation, and judgment—leading to effective corporate governance. The findings suggest that there is a mediating link between the attributes of the audit committee, the internal audit function, and the audit itself, which plays a vital role in the efficiency of the audit process. If the audit committee and internal audit function exhibited favorable characteristics, it can be inferred that the audit processes are effective, resulting in an enhanced corporate governance.

However, there are some limitations to this research. It is essential to acknowledge these limitations and ensure that they are not repeated in future research on similar subjects. This research only analyzes a limited number of factors that affect corporate governance, specifically focusing on the features of audit committees and internal audit function. The research is limited in scope since it excludes relevant aspects such as business size, accounting and reporting standards, and corporate governance. Therefore, it is recommended that future studies explore the influence of other factors as predictors of corporate governance. The data used in this research is from the Ghanaian MDAs, and the generalizability of these results may vary across different countries. Collecting data from both wealthy and developing countries will be crucial for future writers to ensure accuracy and relevance.

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