



Internal Auditors' Position, Recognition, and Independence in Ghana: Evidence from State-Owned Enterprises

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Abstract

The paper focuses on exploring the level of internal auditors' (IAs) placement/position and recognition/respect and the implications of their independence. Data from the state-owned enterprises (SOEs) in Ghana were used. This paper was conceived from the call to strengthen IA independence to facilitate their effectiveness. Three objectives were developed from the problem statement. A quantitative analytical procedure was used coupled with a survey design, and a mean scale and regression analysis was adopted. It was revealed that the threat to IAs' placement is high resulting in low perceived placement. It was also found that the level of recognition of IAs is threatened as evidenced by a low level of recognition. The inferential statistics indicate that IAs' placement and recognition significantly determine the level of IAs' independence. It is recommended that IA units should be restructured both by legislation and in practice to cure the lapses in IAs' placement and recognition in order to improve IAs' independence in state-owned enterprises.

Keywords:

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1. Introduction

The efficiency with which developing countries manage their public finances, including their aid flows, is vital to their efforts to reduce poverty and improve social security and economic development. Deficiencies in public financial management are often the result of underlying priorities and incentives. The overall success and reforms in public financial management, on the other hand, necessitate not only high-level political leadership and assistance, but also professional skills (Asiedu & Deffor, 2017; Ibrahim, Diibuzie, & Abubakari, 2017). To ensure success through effective and efficient public financial management, the use of internal auditors in the public sector is increasingly gaining attention (Hay & Cordery, 2018; Vadasi, Bekiaris, & Andrikopoulos, 2019).

However, internal auditors' independence is assumed to be compromised by their level of position and recognition within Ghana's state-owned enterprises (SOEs) (Hay & Cordery, 2018). Asiedu and Deffor (2017);

Ibrahim et al. (2017); and Pappa and Filos (2019) stated that the majority of internal auditors are in lower positions than those who make financial decisions and the office holders they are expected to track. In view of this, it is believed that internal auditors may not have the power or jurisdiction to avoid financial mismanagement as a result of this lower ranking or position. Additionally, within these state-owned enterprises, internal auditors are subordinates of the spending officers or the CEOs. It is the public's belief that most of these spending officers have the power to engage in corrupt practices. Therefore, the auditors are perceived to be incapacitated in sanctioning these officers for fear of victimization. According to George, Theofanis, and Konstantinos (2015), internal auditors' functional reporting should be carried out to a level of adequate authority in order to promote their independence to ensure wide functional scope, sufficient thought on engagement communications, and sufficient action on audit recommendations. However, this recommendation is yet to receive attention in Ghanaian finance and accounting literature.

Another problem that is believed to undermine the independence of internal auditors is the level of recognition given to them within state-owned enterprises (Asiedu & Deffor, 2017). These internal auditors are perceived as the watchmen to the appointed political actors and other heads of departments in state-owned enterprises who have the tendency to mismanage public funds. However, these political authorities and other heads of state-owned enterprises are alleged to be the ones who disregard directives of the internal auditors. The perceived poor recognition or respect given to internal auditors arguably compromises their independence (Yakubu, 2017).

The challenges that internal auditors face at the workplace in respect of their position and respect/recognition in the public sector can threaten their independence and limit the potential of internal audits to contribute to the value-adding capabilities of national and organizational goal achievement in Ghanaian state-owned enterprises (Sakour & Laila, 2015; Vadasi et al., 2019). Therefore, there is an urgent need to focus attention on the role of internal auditors in protecting the public purse, taking specific interest in their position, recognition, and independence. Furthermore, the effectiveness of internal auditors in enhancing the quality of public services, achieving good internal control systems, minimizing or eliminating corruption, promoting accountability, ensuring the practice of good corporate governance systems, and greater transparency cannot be realized if their independence is compromised (Appiah & Abdulai, 2017; Yakubu, 2017). The 2017 and 2018 end of year reports by the auditor general showed that the state lost the colossal sum of GH¢2.4 billion. The reports indicated that this was due to irregularities and lack of probity in the actions and decisions made by public officers.

The fundamental principles for an effective internal audit function are almost always tied to independence. Some finance and accounting practitioners have argued that internal auditors require independence to assess the operational environment, financial management procedures, and controls and to increase the accountability of managers in the public sector and reinforce trust and confidence in financial reporting processes within the administration (Asiedu & Deffor, 2017; Dal Mas & Barac, 2018). The implication is that it is important to examine and identify factors which could be perceived to threaten the independence of internal auditors and investigate the extent to which these factors significantly affect the level of independence.

Based on the foregoing information, this paper seeks to explore the perceived level of placement/position and recognition/respect and determine the extent to which these antecedents affect the independence of internal auditors in Ghana using data from state-owned enterprises. The paper develops three specific objectives which are tied to the problem under investigation, and by addressing these objectives, the problem is addressed. These specific objectives are as follows:

- Determine the perceived level of placement/position of internal auditors in Ghana's state-owned enterprises.
- Investigate the perceived level of recognition of internal auditors in Ghana's state-owned enterprises.
- Investigate the effect of the perceived level of placement/position and recognition on the independence of internal auditors in Ghana's state-owned enterprises.

2. Literature Review

The rest of the paper provides theoretical and empirical backgrounds to the subject under study. The theoretical framework gives the arguments to support the focus of the study, and the empirical review presents current developments in the subject under investigation and how this paper adds to the debate.

2.1. Theoretical Review

This paper employs two fundamental theories to support the study framework – agency cost theory and contingency theory. Not all theories are specifically unique. The assumptions of varying theories could be consolidated to explain a phenomenon in order to present a theoretical framework for an investigation.

2.2. Agency Theory

Agency theory refers to the relationship between the organization's owner/s and its top management (Adams, 1994). It supports a positivist group of philosophies (Adams, 1994; Changwony & Rotich, 2015). In corporate organizations, the top management manages the whole organization on behalf of the owners as an

agent. However, due to this, Jensen and Meckling (1976) focused on the relationship between the agents and the principals with the argument that managers (agents) engage in actions that promote their own interests at the expense of principals, and they proposed solutions to the unaligned goals and different risk profiles.

Adams (1994) stated that agency theory can provide richer and more meaningful research in the internal audit discipline. In his view, agency theory contends that internal auditing, in common with other intervention mechanisms such as financial reporting and external audits, helps to maintain cost-efficient contracting between owners and managers. In the case of the public administration, managers are the spending authorities, while the general public become the owners. It is in this light that the independence of internal auditors is paramount in order to protect the resources entrusted to the public administration for the benefit of the general public.

The relevance of the theory to the current study setting is that internal auditors should be given maximum independence to ensure efficient public financial management. However, situations in which internal auditors work under public officers of state-owned enterprises, whom they are to hold to account, give these managers and CEOs the opportunity to freely misuse public funds for their own benefit (Ayagre, 2015; Tackie, Marfo-Yiadom, & Achina, 2016). This almost always become possible because the internal auditors, who have the ability to stop such mismanagement, do not possess the managerial power to do so.

The agency theory entails entrusting resources into the hands of the agents (management of state-owned enterprises) and these agents, in turn, should produce reports on the day-to-day running of the business; this is usually done in both quantitative and qualitative manners (Asiedu & Deffor, 2017; Ibrahim et al., 2017; Pappa & Filos, 2019). The agents entrusted with resources are assumed to have a sense of accountability in demonstrating how the resources are used. The purpose of the auditor is to promote confidence-reinforcing trust in financial information. However, if the presence of the internal auditor is disregarded by the agent, the necessary information would not be given, causing an information gap in the auditor's financial report. This is why the perceived level of recognition of internal auditors is necessary for efficient public financial management. Additionally, in contributing to the agency cost theory, Queku (2017) argued that managers' main goal is to maximize their personal goals, of which the principals are unaware, and this is made easy by the separation of business ownership and business control. The implication of Queku's argument is that public officers could be motivated to misappropriate public funds to the extent that it cannot be revealed and reported. The inability of internal auditors to reveal or report possible misappropriation may arise from a lower level of placement and absence of an effective recognition system. Thus, this theoretical assumption may explain why news of misappropriation in the Ghanaian public sector is received mostly through the Auditor General's Report. This brings into question the level of placement/position and recognition/respect for the internal auditors in the Ghanaian public sector. Therefore, this paper seeks to present empirical evidence regarding this situation using data from the state-owned enterprises. The paper follows these theoretical assumptions to formulate the first two research questions as follows:

- 1: *What is the perceived level of placement/position of internal auditors in the state-owned enterprises in Ghana?*
- 2: *What is the perceived level of recognition of internal auditors in the state-owned enterprises in Ghana?*

It can be further argued from the theoretical assumptions that the levels of placement and recognition are important precursors for the independence and effectiveness of internal auditors. Weakness in the placement and recognition of internal auditors could make it difficult for them to independently compel spending officers to work toward achieving goal congruence and ultimately reduce their effectiveness (Queku, 2018). This theoretical extrapolation is consistent with the differences in the results of the work of external auditors and internal auditors. This theoretical position is followed to formulate the following hypothesis:

H₁: The levels of placement/position and recognition/respect of internal auditors have a significant effect on their level of independence.

2.3. The Contingency Theory

The contingency theory was founded by Fiedler (1964). The theory emphasis the relationship between leadership and how leaders operate in certain situations (Dawuda, Ataribanam, & Joseph, 2017). This is applicable within the public administration and the role of auditors. The goal of an audit is to test the reliability of a company's information, policies, practices and procedures. In the case of the public administration and state-owned enterprises, the objective is to make sure that public financial management procedures and regulations are strictly followed to protect the public purse. Within the public financial management laws, government regulations require that the public administration undergo regular financial audits (Yakubu, 2017).

Regardless of the audit subject, various factors impact the final results, and the contingency theory takes these factors into account during the audit process (Appiah & Abdulai, 2017). These factors include the level of recognition and placement of the internal auditors. When auditors are highly regarded or given maximum recognition within the administration, leaders will seek their advice in all critical decisions where finance is involved. This will help strengthen financial discipline. On the other hand, if the level of recognition and placement given to auditors is low, their input will not be valued in financial decision-making processes, thereby leading to a loss of money for the state. The theoretical implication is that the independence of the

internal auditors may be contingent on the auditors' placement and recognition. This affirms the earlier hypothesis as follows:

The perceived levels of placement/position and recognition have a significant effect on the independence of internal auditors in state-owned enterprises.

The contingency theory suggests that the independence of internal auditors in state-owned enterprises can be assured and will be effective when auditors are part of top management's decisions (Scott, 2019). On the other hand, if their independence is compromised by low recognition and limited decision-making power, their level of skills and expertise may prevent them from achieving their goals.

3. Empirical Analysis

In Ethiopia, Ariga and Gathogo (2016) identified the internal audit reporting level as a significant criterion that influences internal audit independence and, ultimately, internal audit effectiveness. According to Dusoruth (2016), in countries where the role of internal audits is highly valued, functional reporting by the internal auditor has shifted from senior officers in organizations to audit committees. According to Nwaobia, Ogundajo, and Theogene (2016), sufficient independence autonomy, functional infrastructure, and human capital will allow internal audits to positively influence audit effectiveness, transparency and accountability of financial management in the public sector. These studies give an empirical reason to believe that placement or position is important for internal auditors to be independent. However, although the settings are within developing countries, these studies are outside the Ghanaian jurisdiction. Hence it is important to investigate the case of the Ghanaian public sector to widen the ongoing debate in developing countries.

In Kenya, Mokono and Nasieku (2018) evaluated the effect of working environment to determine the effects of internal auditors' independence and competence on their performance in public universities. The study adopted a descriptive research design with a target population of the chief internal auditors from 31 chartered public universities. Primary data was used for analysis. The study found that the internal auditors' working environments, internal audit independence and authority, and internal auditors' technical competence impacted the performance of internal audit functions. The implication of the study's findings is that auditors should comply with professional standards as they are most important contributor to internal auditing performance. The findings of Mokono and Nasieku (2018) demonstrate how critical independence is to the effectiveness of internal audits. Thus, it is useful to determine how the current structural bottlenecks in the internal audit architecture of the Ghanaian public sector (placement/rank and recognition) drives the level of their independence. Empirical evidence from such an investigation would not only contribute to theories but also practice and policy.

Similar to the current study, Nyaga, Kiragu, and Riro (2018) explored the relationship between internal audit independence and internal audit effectiveness in Kenya using a descriptive research design. The target population of the study consists of 46 staff members from the Directorate of Internal Audit of Kirinyaga County Government. Primary data was collected through a self-administered questionnaire composed of closed-ended questions. The findings indicated that the audit function was less than independent in the evidence analyzed. Regression analysis revealed that internal audit independence had positive and significant effect on internal audit effectiveness. The study concluded that internal audit independence was an important predictor of the effectiveness of the audit function in the county government. Like Mokono and Nasieku (2018), Nyaga et al. (2018) identified internal auditor's independence as precursor to audit effectiveness. As much as the current study does not doubt this assertion, it can be observed that mechanisms for attaining audit independence is conspicuously missing in existing studies. Thus, in an attempt to enrich the existing literature, the current focus on how auditors' independence is affected by recognition and placement in the public sector.

In the Ghanaian setting, Musah, Gapketer, and Anokye (2018) examined factors that determine internal audit effectiveness among government controlled agencies in Ghana. The study specifically examined the respondents' perceptions of the impact of factors such as the competence of the internal audit unit, the size of the internal audit unit, the relation between internal and external auditors, management support for the internal audit function, and the independence of the internal audit unit effectiveness among SOEs in Ghana. The results of the study showed that management support for internal audit functions is the most significant determinant of internal audit effectiveness. The study further revealed that the size of the internal audit unit, the competence of internal audit staff, the independence of the internal audit unit, as well as a good relationship between internal and external auditors were significant determinants of internal audit effectiveness. The practical implication of that study to the current discussion is the identification of audit independence as an antecedent to effectiveness. However, the current study expands the scope of independence to include recognition of internal auditors within the public sector administration.

In the Ketu Municipal Assembly in Ghana, Agbevade (2018) examined the effectiveness of internal audits in the Education Office. The findings proved that management support, the existence of adequate and competent internal audit staff, and approved internal audit standards and legislations were statistically significant and positively related with the internal audit effectiveness in the public education offices. Thus, the education office should offer more support for the internal audit functions by facilitating internal audit work

and providing sufficient in-service training and resources for the existing internal audit staff. It was observed that the study setting used by Agbevade (2018) is similar to the current study. However, its focus was on competencies of internal auditors, and the current study argues that in spite of how competent an internal auditor is, if their authority to perform is limited, they cannot function effectively. The study further asserts from the contingency theory that if the internal auditor's advice is not sought in critical financial decision-making processes, mismanagement of funds will continue to linger in the yearly reports of the Auditor General. Thus, extending the existing literature to establish the level of perceived recognition, placement and consequences on the independence of internal auditors is timely.

In another vein, Chaiwong (2019) examined the factors affecting efficiency in internal audit performance and the relationships between efficiency in internal audit performance and operational outcomes based on a survey carried out on the "Set 100" companies listed on the Thai Stock Exchange. The efficiency of internal audit performance consists of four dimensions, namely independence, objectivity, competencies and human relations. The regression results showed that completeness of operating and information systems; understanding and acceptance within the organization; knowledge, skills, and human relations; and the relationship between the internal audit units and other units have an influence on internal audit efficiency. In addition, human relations and the relationship between the internal audit unit and other units have an influence on the four dimensions of an internal audit's performance. Chaiwong (2019) also emphasized the critical role of independence. The current study helps to fill the gap in the literature by examining how proper recognition of internal auditors serves as predictor of auditors' independence.

3.1. Conceptual Issues

This section discusses some of the key study variables in the literature. The key concepts include internal audit systems in the Ghanaian public sector, and internal auditors' independence, placement and recognition. These concepts are reviewed below.

3.2. The Internal Audit System in the Ghanaian Public Sector

Internal auditing is an independent evaluation and is an assurance as well as a consulting activity designed to improve and add value to an organization's operations. Thus, following this definition, internal audits of the Ghanaian public sector may be defined as independent assessments and evaluations of public financial management practices, policies and procedures within the framework of the designed system of controls to add value and improve the operations of the public sector. The auditing of the public sector is guaranteed by the 1992 Constitution of Ghana and the Internal Audit Agency (IAA) Act, 2003 (Act 658). Despite these legal provisions, the internal audit system in Ghana has lacked administrative recognition until recently (Onumah & Krah, 2012).

The establishment of the IAA was a response to some of the challenges in internal audit functions. The IAA in Ghana is actively involved in institutionalizing and establishing internal audit units in various state-owned enterprises. The agency has also contributed to issuing internal audit standards to guide internal auditors in state-owned enterprises (Chaiwong, 2019). Nevertheless, the core facet of the internal audit system, as noted in the definition of independence, has often been called into question. It is therefore critical to explore some of the antecedents which could sacrifice the effectiveness of internal audit functions through weakness in the independence of the internal audit.

3.3. Internal Auditors' Independence

Internal auditors' independence and authority are important concepts that enable internal auditors to operate without interference and provide effective feedback to management on how to continuously enhance and implement effective control policies (Dusoruth, 2016). It could be argued that the increased frequency of financial reporting and external audit failures have motivated the internal audit profession to seek greater autonomy in the organization structure. In countries where the role of internal audits is highly valued, functional reporting moved from senior officers in organizations to specific committees set up under the boards that report to the board of directors. The services offered by internal auditors are achieved through internal auditor independence, and where internal auditors lack independence, they would normally fail to perform to the expectation of the organization (Ariga & Gathogo, 2016).

The lack of controls also results in late filings, financial reporting errors, fraud, and numerous other questionable activities. As the number and size of public organizations grow, so does the need for properly educated and experienced accounting personnel and the protection of internal auditors' independence. The weakness in the independence of internal auditors could allow management to influence the decisions of internal auditors, affecting their performance and resulting in financial reporting risks, such as improper revenue recognition, inflated acquisition costs for equipment and inventory, improper cash advances to officers, and other transgressions that have a significant impact on organizational viability (Mokono & Nasieku, 2018).

3.4. Internal Auditors' Placement/Rank in State-Owned Enterprises

In state-owned enterprises in Ghana, the internal audit units come under the head of services and the chief directors. Additionally, audit units report to the appointed sector ministers and the municipal or district chief executives. It is argued that this line of reporting compromises the independence of internal auditors. In view of this, [Ariga and Gathogo \(2016\)](#) argued that to build an appropriate level of independence for internal audit effectiveness, the chief audit executive should report administratively to the senior executives and functionally to the board. [Dusoruth \(2016\)](#) supported this idea, as his study revealed a significant and positive association between the level of reporting of internal audits, or organizational status, and its effectiveness. Internal audit functions must be accorded sufficient authority and status to enable objective execution of their mandate, though their employment status could hinder their progress.

Similarly, [Dusoruth \(2016\)](#) stressed that independence and objectivity can enhance audit effectiveness through internal audit reporting. Similarly, [Nwaobia et al. \(2016\)](#) identified the reporting level of internal audits as a significant criterion that influences internal audit independence and, ultimately, internal audit effectiveness. It has been observed that in countries where the role of internal audits is highly valued, functional reporting has shifted from senior officers in organizations to audit committees ([Mokono & Nasieku, 2018](#)). This literature suggests that the placement of internal auditors in the public sector could significantly affect their independence, and this can be affirmed or disaffirmed through a higher order statistical evaluation.

3.5. Internal Auditors' Recognition/Respect in State-Owned Enterprises

The concept of recognition or respect is defined as how the public service discloses all required information to internal auditors and involves them in all financial decision-making processes. In view of this, [Ayagre \(2015\)](#) stated that auditors should be accorded right of access to books of accounts, financial statements, information and explanations at all times to ensure sufficient independence and enhanced effectiveness of audit functions. It was also indicated that, with the right information, internal auditors can function effectively and decisively ([Nwaobia et al., 2016](#)).

3.6. Research Design and Approach

The current study adopted a survey design to investigate internal auditors' placement and recognition in the public sector and its impact on their independence. The focus is on state-owned enterprises in Ghana. [Bell, Bryman, and Harley \(2018\)](#) defined a survey design as a method of collecting information by interviewing or administering a questionnaire to a sample of individuals. It is used to collect data about people's attitudes, opinions, habits, education and social issues. This design is supported by a mixed approach in which both quantitative and qualitative approaches are adopted. The use of a survey design provides room to gather both numerical and non-numerical data, which is consistent with the mixed approach. The paper starts with the quantitative analysis and is then validated with qualitative considerations.

3.7. Target Population, Sampling Technique and Instrument Design

The population of the study consists of all 36 state-owned enterprises in the country. The units of analysis are the internal auditors, audit committees, and the chairman of the finance and administration committee. In total, the target population is 127, which comprises internal auditors, audit committees, and chairmen of the finance and administration committees in the state-owned enterprises. The paper employs a sample size of 100 based on the reasonable ratio of 80%. The data are collected through a self-administered questionnaire, which is composed of closed-ended questions for the quantitative analysis and open-ended questions to capture the qualitative response. The questionnaires were distributed through a drop and pick method, whereby the researcher allows the respondents to answer the questions at their own pace. The data collection instrument is based on existing instruments which have already been validated with a high reliability score.

3.8. Data Analysis

The collected data were cleaned and edited to ensure completeness and consistency and were tabulated and analyzed using descriptive and inferential statistics with the help of the Statistical Package for Social Sciences (SPSS) version 22. The mean scale analysis was used to determine the perceived levels of placement/position and recognition of internal auditors in the state-owned enterprises. Standard regression analysis was used to determine whether the perceived level of placement/position in aggregation have a significant effect on internal auditors' independence. The results are presented in form of tables and frequency distributions. According to [Fellows and Liu \(2015\)](#), this method conserves space and reduces explanatory and descriptive narratives. It also facilitates the process of comparison. The relationship between the study variables was established using the following model:

$$Y = \beta_0 + \beta_1 P_1 + \beta_2 R_2 + \varepsilon$$

Where:

Y = internal auditor independence.

β_0 = constant term.

β_1 = beta coefficients.

P_1 = perceived level of placement/position.
 R_2 = perceived level of recognition/respect.
 ε = error term.

4. Results and Discussion

Out of the 100 questionnaires administered, 89 were returned. This response rate is above 70%, which is adequate, according to Kothari (2004). The tables below contain the descriptive analysis results of internal auditors' independence, the perceived level of their placement, and their perceived level of recognition.

Table 1. Descriptive analysis of internal audit independence.

Checklist	N	Mean	Std. dev
Management determines the scope of internal audit work	89	3.1098	0.3556
Management controls the budget for internal audits	89	4.1017	0.2611
Management do not usually heed advice from internal auditors	89	4.2017	0.2411
There is undue involvement of management in internal audit planning	89	3.3511	0.9915
Internal auditors are actively involved in the daily management activities	89	3.6461	1.2417
The internal audit function does not report findings directly to the audit committee	89	3.3317	0.8621
The internal audit function has difficulty accessing evidence needed during the audit	89	2.9924	0.2517
Total aggregate	89	24.7345	
Grand mean	89	3.5335	

Note: Scale (Mean): Low = 1.00–2.90; cut-off point = 2.99; high = 3.00–5.00.

Source: Field survey (2020).

The assessment of the level of internal audit independence is based on seven points and are each scored on 1 to 5. A score from 1–2.9 shows a low threat to independence, 2.99 is the cut-off point, while scores of 3–5 are in the high threat region. The mean score of the seven indicators that make up the threat to internal auditor independence is 24.7345, and this further indicates that there is a high level of threat to independence compared to the total score of 35.00. To buttress the evidence of a high threat to independence, the overall mean score, as shown in Table 1, is 3.5335 (24.7345/7). The results of the independent threat factors are the internal audit budget being controlled by management ($\bar{x} = 4.1017$), the active involvement of internal auditors in the daily management activities ($\bar{x} = 3.6461$), the undue involvement of management in internal audit planning ($\bar{x} = 3.6461$), the internal audit function not reporting findings directly to the audit committee ($\bar{x} = 3.3317$), the management determining the scope of internal audit work ($\bar{x} = 3.1098$), and the internal audit function has difficulty accessing audit evidence ($\bar{x} = 2.9924$). It is also evident that the internal audit budget being controlled by management was rated the highest threat to the independence of internal auditors, while the internal audit function has difficult accessing audit evidence presented the lowest threat. Given the high threat of independence score of 3.4221, the level of independence is estimated as 1.4665 (5.00–3.5335).

The first research question of this paper sought to explore the perceived level of internal auditor placement in Ghana's state-owned enterprises. The results are captured in Table 2.

To answer this research question, five indicators were used to measure the variable on a five-point Likert scale. A score of '5' indicates the strongest agreement, while a score of '1' shows the least agreement. Given this measurement scale, the highest score expected is 25.00 (i.e., five indicators x five points on the scale) and the lowest is five (i.e., one indicator x five on the scale).

Table 2. Descriptive analysis of the perceived level of auditor placement/position.

Checklist	N	Mean	Std. dev
The internal auditor's report is of the same authority of all management	89	4.1298	0.1579
I am concerned that I may lose my job due to interference from top management	89	3.8765	0.2517
Top management in my company provides me with guarantees when I need them, and vice versa	89	3.0987	1.1452
Internal auditors are highly placed among top management	89	2.0987	1.1452
Internal auditors report findings to internal management	89	3.9317	1.0606
Internal auditors' position and function can be changed or influenced by internal management	89	4.3424	0.0510
Total aggregate	89	21.4778	
Grand mean	89	3.579633	

Note: Scale (Mean): Low = 1.00–2.90; cut-off point = 2.99; high = 3.00–5.00.

Source: Field survey (2020).

The overall score of the five indicators that make up the threat to internal auditor placement/rank or position is 21.4778. This indicates that the respondents generally believe that there is a high level of threat to the internal auditors' placement, rank and position, as the maximum possible score is 30.00. The grand mean, as shown in Table 2, is 3.579633 (21.4778/6). The results revealed that all the threat indicators have scores that fall within the high range. The highest score was given to the indicator "internal auditors' position and function can be changed or influenced by internal management" with a mean score of $(\bar{x} = 4.3424)$. Thus, the biggest threat to their placement is the fear that internal management can change or influence their position, which could take the form of a transfer. The minimum score of 3.579633 is associated with "top management in my district provides me with guarantees when I need them, and vice versa". Even this minimum score is still within the high region, making the threat to their placement quite alarming.

The findings disaffirm the results of Duseruth (2016), who revealed that placement of internal auditors has shifted from reporting to senior officers to reporting to the audit committee. The contradiction in results may be due to the study setting of Duseruth (2016). According to Duseruth (2016), functional reporting by internal auditors has shifted from senior officers in organizations to audit committees in countries where the role of internal audits is highly valued. The implication of the low placement, as exhibited by the mean score of $1.22 \bar{x} = 5.00-3.579$, is that the Ghanaian public sector (state-owned enterprises) does not place high value on internal audit functions.

This finding is consistent with the discovery and opinion of several prior researchers in the field. According to prior research, the anxiety related to losing one's job, fear of being transferred, and weakness in reporting structure affect internal auditors' level of placement (Mokono & Nasieku, 2018; Nwaobia et al., 2016).

Overall, the findings have revealed that internal auditors in the state-owned enterprises do not have proper placement and there are threats to their position. The findings imply that the internal audit function in the Ghanaian public sector should be an objective task with a degree of assurance and trust. Therefore, internal audits should not be compromised in the reporting line, as they are required to report and review the operational areas. These findings have theoretical and practical significance. The findings support the assumption of contingency theory and suggest that internal auditors' placement is contingent on their authority that is comparable to management. Based on the level of threat of losing their jobs, internal auditors need for guarantees from management and whether or not internal auditors' positions and functions can be changed or influenced by internal management (Ibrahim et al., 2017; Nyaga et al., 2018; Pappa & Filos, 2019).

The second research question in this paper seeks to explore the perceived level of recognition of internal auditors in state-owned enterprises in Ghana. The results are presented in Table 3. Similar to the first research question, to answer the second question, five indicators were used to measure the variables on a five-point Likert scale. A score of '5' indicates the strongest agreement, while a score of '1' shows the least agreement. The overall highest score expected is 25.00 (i.e., five indicators x five points on the scale) and the lowest is five (i.e., one indicator x five on the scale).

Table 3. Descriptive analysis of the perceived level of recognition of internal auditors.

Checklist	N	Mean	Std. dev
Internal auditors do not play a critical role in management's decision making	89	3.6998	0.7579
Internal auditors are usually subordinate to management in terms of their decisions during an audit	89	4.1981	0.8921
Internal auditors do not receive much-needed respected and are not highly regarded by top management		4.3981	0.8931
Internal auditors do not play a role in directing and controlling the use of funds at the local assembly	89	3.5317	1.0606
Internal auditors do not receive comparable respect to external auditors in public services for their essential role in public financial management	89	4.3561	0.4317
Internal auditors' views are not sought by management regarding budgetary allocation	89	4.2581	1.0712
Total aggregate	89	24.4419	
Grand mean	89	4.0738	

Note: Scale (Mean): Low = 1.00–2.90; cut-off point = 2.99; high = 3.00–5.00.

Source: Field survey (2020).

The total score from the five indicators that make up the threat to internal auditor recognition is 24.4419, with a grand mean of 4.0738. The participants generally believed that the level of recognition of internal auditors is very low, as shown by the mean of 0.926 $(\bar{x} = 5.00-4.073)$. It can be observed in Table 3 that all five indicators have a mean score greater than 3.00, and three of these scores are greater than 4.00. The

respondents rated “internal auditors do not receive comparable respect to external auditors in public services for their essential role in public financial management” as the highest threat to the internal auditors’ recognition ($\bar{x} = 4.3561$, $SD = 0.4317$). The lowest mean score is 3.5317, which is associated with “internal auditors do not play a role in directing and controlling the use of funds at the local assembly”. However, this lowest mean score is still within the high range.

The data shows that internal auditors are not respected with public services for their essential role in public financial management, and their views are not sought by management on budgetary allocation. The information in Table 3 further indicates that internal auditors are usually subordinated in terms of decisions during an audit. All these obstacles compromise their independence. Empirical studies by Mokono and Nasieku (2018) and Agbevade (2018) have confirmed that the low level of recognition of internal auditors is disingenuous to their independence, which translates into an affront on efficient public financial management.

The findings confirm the theoretical hypothesis based on agency theory. It states that if the presence of the internal auditor is disregarded by both the principal and the agent, the intervention mechanisms needed to bridge the gap would actually widen the gap (Asiedu & Deffor, 2017; Ayagre, 2015; Tackie et al., 2016). This is why the perceived level of recognition of internal auditors is necessary if public financial management is to operate efficiently.

4.1. Effect of the Threat to Internal Auditors’ Placement/Position and Recognition/Respect on their Independence

To determine how internal auditors’ placement and recognition affect their independence, the study adopted inferential statistics where a standard regression analysis was employed. This is the last study objective, and it examines the effect of the perceived level of recognition and the perceived level of placement on the independence of internal auditors.

This type of statistical analysis requires some underlying assumptions, such as the absence of the problem of multicollinearity. The basic assumption for the regression to generate reliable results is the absence of multicollinearity. Using SPSS, the study used the tolerance value and the variance inflation factor (VIF) as the bases for testing this assumption. The tolerance value is the inverse of the VIF. The norm is that when the tolerance value is very small (i.e., less than 0.1) and the VIF is greater than 10, then there is a multicollinearity problem.

Table 4. Multicollinearity analysis results.

Study variable	Tolerance value	VIF	Decision
TIN	0.492	1.448	No
TLP	0.500	1.329	No
TLR	0.620	1.187	No

Note: TIN = Threat to independence, TLP = Threat to the level of placement, TLR = Threat to the level of recognition.

It can be observed from Table 4 that all the variables have tolerance values greater than 0.1 and VIF values less than 10. This suggests that the model does not have the problem of multicollinearity.

4.2. Inferential Analysis

From the internal audit model, the value for R-squared is 0.71 (see Table 5). This illustrates that there is a relationship between the perceived threat of placement and recognition on the independence of internal auditors in the state-owned enterprises in Ghana. The adjusted R-squared value of 0.730 shows that 73.0% of the independence of internal auditors in state-owned enterprises in Ghana is explained by the perceived level of placement and recognition. The remaining 27.0% is explained by other factors not in the model. The model showed a significant F-statistic value of 17.255, at a p-value of 0.000, which is less than 0.05. This is an indication that the perceived levels of placement and recognition have a significant effect on the independence of internal auditors.

Table 5. Estimation of threat to recognition and placement on independence.

	Beta	t-stat	Sig.	R ²	Adj. R ²	F-stat
AIN model				0.711	0.730	17.255 (.001)
TLP	0.381	5.475	0.0251			
TLR	0.321	6.175	0.0101			

Note: AIN = Audit independence, TLP = The perceived level of placement, TLR = The perceived level of recognition.

The inferential analysis indicates that the perceived levels of placement and recognition have a positive and significant influence on the threat of independence of internal auditors. The perceived threats to the levels of placement and recognition have coefficients of 0.381 (0.0251) and 0.321 (0.0101), respectively. These coefficients are positive, suggesting that the threat of placement and recognition of internal auditors have a positive effect on the threat to the independence of internal auditors. The p-values are in parentheses, which are less than 5%, indicating that the coefficients are significant, thus indicating a significant relationship.

The implication is that an increase in the level of threat to the placement and recognition would lead to respective increases of 0.381 and 0.321 in the threat of independence (i.e., decrease the internal auditors' independence). On the other hand, a decrease in the level of threat to placement and recognition would lead to respective decreases of 0.381 and 0.321 in the threat of independence (i.e., increase the internal auditors' independence).

The results for the perceived levels of placement and recognition explain why the overall mean score for the level of independence was as low as 1.5779 (and threat of independence was as high as 3.4221). The implication is that threats to placement and recognition have a significant negative effect on the level of internal auditors' independence (i.e., a positive influence on the threat of independence).

The negative effect of the high threat to internal auditors' placement and recognition on internal auditors' independence is consistent with the findings of Ayagre (2015). Similar to this paper, Ayagre (2015) revealed that to ensure sufficient independence and enhanced effectiveness of audit functions, it should be accorded the necessary recognition. It has also been indicated that, with the right recognition and placement, internal auditors can function independently and decisively (Nwaobia et al., 2016). The results contribute to the assertion by Ariga and Gathogo (2016), who argued that to build an appropriate level of independence for internal audit effectiveness, the chief audit executive should report administratively to the senior executives and functionally to the board. Thus, there is empirical evidence of a negative relationship between the threat to the placement and recognition of IAs and the level of IA independence.

The findings also contribute to theory. The findings affirm the contingency theory that IAs' independence is dependent on the level of recognition and placement. Thus, threats to IAs' placement and recognition threatens their independence (Appiah & Abdulai, 2017). This suggests that, based on contingency theory, the independence of internal auditors in the state-owned agencies can be assured and effective when auditors form part of top management as decision makers (Scott, 2019). On the other hand, if their independence is compromised by low recognition and limited decision-making power, their level of skill and expertise will hinder the achievement of their goals.

The results also support the agency cost theory. Similar to the theoretical assumption of the agency cost theory, weakness in the placement and recognition of internal auditors could make it difficult for IAs to independently compel spending officers to work toward achieving goal congruence and ultimately enhance their effectiveness (Queku, 2018).

The findings suggest that when IAs are highly regarded, or given maximum recognition within the administration, leaders will seek their advice in all critical decisions where finance is involved. This will help strengthen financial discipline. On the other hand, if the level of recognition and placement given to them is low, their input will not be regarded in financial decision making processes, thereby leading to a huge loss of money for the state.

5. Conclusion and Recommendations

The paper explored the level of threats to internal auditors' placement and recognition and the extent to which these threats affect the level of IAs' independence. A survey design coupled with quantitative analytical procedures was adopted. A mean scale exhibited by the descriptive and inferential statistics from the standard regression were used for the investigation. It was concluded that there is a low level of perceived placement of IAs (i.e., a high threat to placement/position) in the state-owned enterprises in Ghana. The study further concludes that the perceived level of recognition given to IAs in the state-owned enterprises in Ghana is very low (i.e., a high threat to recognition/respect). Another conclusion is that the perceived level of placement and recognition jointly predict the independence status of internal auditors in the state-owned enterprises in Ghana. Furthermore, the study concludes that the perceived levels of placement/position and recognition of internal auditors have a positive and significant effect on their independence.

The implication for the low level of placement of IAs is that it becomes difficult for them to stamp their authority in state-owned enterprises with regard to the efficient use of public financial resources. It is therefore recommended that internal auditors, or audit units, should be separate entities from the main organizational structure in state-owned enterprises, similar to external auditors. This will mean that all the auditors within the unit will only report to the chief auditor. It is recommended that the chief auditor will only work with and report to higher management or the hierarchy outside the audited state institutions. This could eradicate the control that management of state-owned enterprises has on internal audits.

The implication of the low perceived recognition given to IAs in the state-owned enterprises is that their consulting role may be relegated. It is therefore recommended that the government should pass legislation to ensure that internal audit units play a critical role in management decision making in public services. It is also recommended that internal audit functions should direct and control the use of funds in the state-owned enterprises in Ghana.

Further studies may consider expanding the investigation model to incorporate other variables in addition to placement and recognition. The paper was also limited to public services in the form of state-owned enterprises in Ghana. Future research should be conducted on all government agencies, including public universities, ministries, and municipal assemblies.

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