Internal Control as a Tool for Efficient Management of Revenue Mobilization at the Metropolitan, Municipal and District Assemblies in Ghana.
A Case Study of Accra Metropolitan Assembly

Edward Attah-Botchwey
Ph.D. in Business Administration (Finance)
Senior Lecturer University of Professional Studies, Accra

Abstract

This study visits the relevance of internal control systems in organizations. The study sets off to investigate the internal control system in the Accra Metropolitan Assembly (A.M.A) and its effect on revenue mobilization for the Assembly. It looks at the components of internal control system and its functionality in A.M.A, examines the capability of the system and attempts to describe revenue mobilization of the organization. A sample of 100 staff in purposively selected position in A.M.A was used in the study for the purpose of obtaining primary data. These were staffs who were engaged with internal control systems and procedures and revenue activities. The study establishes that there is an internal control system within the A.M.A setup which is directive. It was found out that; the internal control system is composed of at least, four components. These are risk assessment, which was most poorly complied with, control activities, information and communication and monitoring, all showing high importance in highlighting the internal control system. Generally, they contributed to a system that was able to serve its purpose. Revenue mobilization was also done timely and according to schedule. All these were however, not without setbacks. The study concludes by showing strongly that, there is a significant effect of the internal control system on revenue mobilization in A.M.A. The challenges like failure to do proper risk assessment, diversion of revenue belonging to the Assembly, lack of education and information on the Assembly's project, and lack of logistics and administrative support tend to reduce the vibrancy of the system and revenue mobilization.

Introduction

Internal controls refer to the measures put in place by an institution so as to ensure attainment of the entity's objectives, goals and missions. They are a set of policies and procedures adopted by an entity in ensuring that an organization's transactions are processed in the appropriate manner to avoid waste, theft and misuse of organization resources. It is worth noting that internal controls only provide reasonable but not absolute assurance to an entity's management and board of directors that the organization's objectives will be achieved. "The likelihood of achievement is affected by limitations inherent in all systems of internal control" (Hayes, Dassen, Schilder and Wallage, 2005). Organizations establish internal control systems to enable them achieve performance and organizational goals, prevent loss of resources, enable production of reliable reports and ensure compliance with laws and regulations.

Local Governments (LG) in Ghana for many years have been required to develop and adhere to effective internal control systems in order to help them achieve their goals, prevent loss of resources, ensure reliable financial reporting and compliance with laws and regulations. These internal control requirements have increased significantly since the implementation of the Decentralization policy in 1988, the enactment of the 1992 Constitution of Ghana and the implementation of the Local Government Act (Act 462) of 1993.The internal audit is one such unit established by management to ensure compliance to policy instruction and to correct deviations from management-set standards or guidelines. It objectively examines, evaluates and reports on the adequacy of internal control, thereby ensuring efficient and effective application of limited resources (Otoo, 2013).

Internal Control has different definitions but the most widely accepted is that of the Committee of Sponsoring Organization (COSO), 1992 that defined internal control as the process effected by an entity's board of directors, management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories; Effectiveness and efficiency of operations, Reliability of financial reporting and Compliance with applicable laws and regulations.

The first category addresses an entity's basic objectives, including performance goals and safeguarding of resources. The second relates to the preparation of reliable published financial statements, including interim and condensed financial statements and selected financial data derived from such statements, such as budgetary control releases that are reported publicly. The third deals with complying with those laws and regulations to which the entity is subject. These distinct but overlapping categories address different needs and allow a directed focus to meet the separate needs (Hughes, 2007).

There exist waste and corruption in the public financial administration; therefore there is the need for Metropolitan Municipal District Assembly's (MMDA's) in Ghana to institute as well as put in place checks and control systems to reduce the waste and corruption (Frimpong, 2013).

Audited accounts of the District Assemblies for 2011 fiscal year have revealed massive misappropriation of public funds, payment of salaries to individuals who did not deserve them, and other payments which could not be accounted for by the Metropolitan, Municipal and District Assemblies(Auditor General's report, 2011)..

The annual Auditor-General's report and reports from the Judgment Debt Commission, showed that Internal Audit Units at the various district assemblies and department in the country had more work to do. Funds were mostly not embezzled but were rather misappropriated or misapplied, that was an indictment on the part of the auditors who are supposed to ensure that funds are used for the intended purpose, even though the basic rule according to Jesse Hughes is that management is responsible for establishing and enforcing internal controls, whiles auditors are responsible for checking the adequacy and effectiveness of those controls. The Auditor General pointed out that ineffective internal controls result in weak expenditure controls, increases the risk of misappropriation, and encourages unauthorized borrowing of funds for private purposes and other cash irregularities (Frimpong, 2013).

Internal controls must therefore be strengthened and strictly adhered to, to ensure prudent application of funds in order to manage and reduce physical waste and corruption in the public sector. In Ghana, decentralization reforms started at the end of 1980s. Between 1957 and 1988, efforts were made by successive Ghanaian governments to decentralize authority to the local level. These took the form of regional devolution and district focused public administration. Progress was minimal until the 1970s, when the decentralized system was reformulated to a four – tier structure consisting of Regional, District, Local Councils and Towns and Village Development Committees. The District Councils were made the focal point of local government with administrative and executive power for local level development and governance.

For development to be effective at the local level, financial responsibility is thus one of the core components of decentralization. If local governments are to carry out decentralization functions effectively, they must have adequate levels of revenue either locally or transferred from the central government as well as the authority to make decisions about expenditures
(Owusu, 2012).

In Ghana, Revenue Mobilization remains a prerequisite for the implementation of the MMDA's plans and programmes. The operations and functions of the assemblies largely depends on the availability and quantum of revenue. While it might receive some revenue from the central government, development partners and other sources, it is important that MMDA's are able to raise money internally. Like the practice in other systems elsewhere, MMDAs have been provided with sources of revenue including central government transfers, internally generated revenue as well as revenue from bilateral and multilateral donor support and technical assistance (Owusu, 2012).

The PNDCL 207, the 1992 Constitution and Act 462 of 1993 state that the MMDAs are to be made financially autonomous in order to be able to undertake their assigned functions. It is therefore imperative that all resources due to the assembly are efficiently and effectively collected, recorded, safeguarded and accounted for. The research will therefore assess internal control as a tool for efficient management of revenue mobilisation at a District Assembly in Ghana using Accra Metropolitan Assembly (AMA) as a case study.

Method

3.2 Research Design

This study is modeled on a case study. Essentially, the case study design provides for a deep understanding of phenomena in a particular field. In other words, a case study allows for in-depth study of any phenomena as pertains to a particular field.

Findings from a case study research are always traceable to, but not necessarily limited to, the study field. The case study design allowed the researcher to make an in-depth inquiry into internal control systems and revenue mobilization in the Accra Metropolitan Assembly (A.M.A), the study field. The study relies heavily on primary data which was obtained through the several visits the researcher made to the study field. In some of those visits, the researcher undertook to familiarize with the figureheads and staffs of the organization and to know the terrain within the organization. This was intended to facilitate data collection in the course of the study. Beyond this, the latter days of the visits were used for data collection by means of questionnaire administration.

The study employed the quantitative approach to data collection and analysis. The quantitative approach also enabled the researcher to use statistical data to describe and explain phenomena for which such data was obtained. The data collection comprised, as in Cooper and Schindler (2001), questioning respondents via a collection of questions and instruction for both the respondents and the questionnaire administrator. A structured questionnaire was used to serve this purpose.

3.3 PROFILE OF THE STUDY AREA

3.3.1 Physical Characteristics

A.M.A is made up of Eleven Sub Metropolitan District Councils namely Ablekuma Central,
Ablekuma North, Ablekuma South, AshieduKeteke, Ayawaso Central, Ayawaso East, Ayawaso West, La, Okaikoi North, Okaikoi South and OsuKlotey. The total land area of the Assembly is about 200 square kilometres. But before 30th June 2012, La Dade-Kotopon was part of Accra Metropolitan Assembly until it was carved out under the LI 2038.

The Assembly shares its northern boundary with the Ga West District Assembly. The boundary, in the north, starts from the road between the University of Professional Studies Accra(UPSA) and the Accra Teachers Training College (ATRACO), westwards crossing the Accra-Aburi Road to the University of Ghana behind the Great Hall to Kisiseman and Christian Village to join the Accra Nsawam Road at the Achimota Brewery Road Junction. It turns left to the Ayeayeefee Street junction and through the Ayeayeefee Street to the Bridge over the Achimota Stream, and then turns right along the stream to the high tension lines to the Achwilage Street and through Achwilage Street to the range of the Awoshie Hills. The Southern boundary is engulfed by the Gulf of Guinea. It starts from Gbegbeyese to the Kpeshie Lagoon.

The Eastern corridor of the Assembly is the Ledzokuku-Krowor Municipal Assembly (which was carved out of the Accra Metropolitan Assembly). The Assembly is bounded to the West by Ga South Municipal Assembly. The boundary in the west is along the road from Awoshie hills to the boundary between Ga South Municipal Assembly and Awoshie (Accra Metropolis). The boundary line then turns left along the swampy area and crossing the motorway through the swampy area to the bridge on the Sakumono Stream on the Accra-Winneba road and stretching along the stream to Gbegbeyese. Figure 3.1 shows the location of the study area.
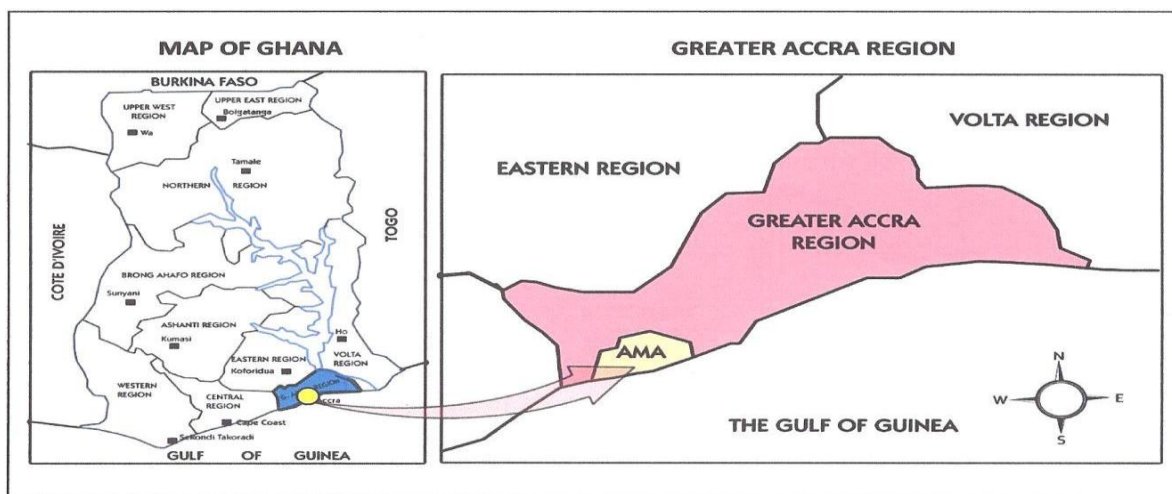

Figure 3.1: Accra Metropolitan Areas in Context

(Source: Arkorful, 2008)

3.3.2 Demographic Characteristics

With a population of about 1,695,136 people, Accra, Ghana's capital since 1877, is today one of the most populated and fast growing Metropolis of Africa with an annual growth rate of 3.36%. The reason for the high population rise in Accra can be attributed to a number of reasons: The period between 1960 and 1970 saw some of the rapid industrialization and expansion in the manufacturing and commercial sectors in some major areas within the metropolis. This factor contributed to high immigration to Accra, and the resultant high population growth rate between 1960-1970 inter-censal years (Ghana Statistical Service, 2000).

The stagnation of the Ghanaian Economy during the 1970's had adverse effect on the growth rate of Accra's population. The decline in agriculture in rural communities in Ghana and industrialization in urban regions coupled with the late 1980s and 1990s boom in the service sector in primate cities propelled immigration to Accra (Ghana Statistical Service, 2000). The population characteristics of the study area are shown in Table 3.1

Table 3.1: Population Characteristics of Accra Metropolitan Area from 1960-2000

Years Phenomenon	1960	1970	1984	2000
Population	338,396	636,667	969,195	1,658,937
Population Growth Rates	-	6.32%	7.51%	4.3%

Source: Ghana Statistical Service, Summary report of final results-2000 population and housing census (pp 1-3).

Unfortunately, the population census figures do not show the number of people who enter Accra daily. It is estimated that the city accommodates between 2.5 million to 3 million people in terms of socio-economic activities aside the residential dimension captured by the 2000 National Population Census.Lastly, the Accra Metropolitan Area as an administrative, educational, industrial and commercial centre attracts people from all over Ghana and these continues to be the major force for rapid population growth, with migration contributing to over 35% of the population increase (Ghana Statistical Service, 2000).

3.4 Study Population

The study field as has already been mentioned, is the Accra Metropolitan Assembly (A.M.A). For the purpose of this research, the term 'Population' refers to the permanent staffs of A.M.A. Most of these people are involved in the day-to-day operations of the organization. The population is without regard to any category of persons, such as by their age, gender, position etc. Since the study is fundamentally focused on internal phenomena in the organization, the permanent staffs were the accurate persons or population to target. Hence, the population is the permanent staffs of AMA.

3.5 Sample Size and Sampling Techniques

The study employed a non-probabilistic sampling approach to obtain a sample for the study. A unique feature of non-probabilistic sampling is that it does not regard the population total in estimating study samples. This is in sharp contrast with probability sampling or random sampling in which case population total is always critical in determining study samples. In this study, a total of 100 respondents comprising males and females were selected for the study using convenience sampling method under the non-probability sampling technique. This total sample was arrived at following this reason: The subject matter of the study is about internal control systems and revenue mobilization, and it was only prudent to engage the staffs who have some level of experience with control systems and revenue generation operations within the organization. As a result, the purposive sampling method was used to include in the sample only permanent staffs in the category of Internal Auditors, Budget Officers, Finance Officers, Revenue Collectors, and Assembly Members. This was based on the idea that they were directly involved in revenue mobilization and revenue management as well as the compliance or evaluation of internal controls at the Assembly; they were in the position to respond to issues raised in the study. In the view of Trochim (2006), purposive sampling can be very useful for situations where you (the researcher) need to reach a targeted sample quickly. Out of these categories of staffs, convenience sampling was employed to recruit respondents not only because they were available but also willing to be involved in the study when the researcher knocked on their doors.

3.6 Sources of Data

Both primary and secondary data were used for the study. Questionnaire was the main toolused to collect primary data. It comprised mainly close-ended questions. However, relevant literature was reviewed from secondary sources of data in order to get more insight into the study regarding the perspectives of different authors in respect of the topic. Also, secondary data were collected from Journals, Reports, publications, articles and the internet.

3.7Methods of Data Analysis

Data analysis refers to the methods, techniques or procedures used in research to have different kinds of data transformed into processed facts or information. These facts or information should provide the ground for assumptions, claims, and conclusions to be arrived at. In order to reach this point, data obtained from the questionnaire in this study was collated and organized to ensure that data integration has been achieved. Playing a very central role in doing these things, and further, in analyzing the data, was the Statistical Package for Social Sciences (SPSS) version 16. Using the SPSS involved programming or coding the software to accept data input from the questionnaires. Data was subsequently entered for all the questionnaires and screened for errors to be corrected. Using Microsoft Excel, statistical data was produced.

Statistics were presented in frequencies and percentages mainly to provide a descriptive summary of issues. More rigorous statistical tools such as measures of central tendency (Mean and Standard Deviation) were used to find the central locus and behaviour within data, and multiple regression to determine relationships between variables. Tables and charts served a good purpose in presenting the statistics for a quicker overview.

Results

The findings in this study were made in response to the objectives and research questions set for the study. The findings primarily came from data obtained from internal auditors, budget officers, finance officers, revenue collectors, and assembly members. In line with the study objectives, the following findings were made.

Components underpinning the internal control system in A.M.A

The study found that internal control system is indispensable in the AMA setup. It is situated in a clearly defined organizational structure. The management team in the organization takes primary responsibility for the internal control system. The study identified four (4) components, namely; Risk Assessment, Information and Communication, Monitoring, and Control Activities. The study found that, except in the case of Risk Assessment, all the components identified were highly functional in the AMA. In information and communication, for instance, A.M.A is regarded for communicating standards and expectations to key stakeholders. In monitoring, the presence of an internal audit unit was highly felt, and in control activities, AMA mostly provided adequate physical security for cash and other assets subject to theft. This is without admitting that problems are nonexistent in each of these components. Risk assessment rated significantly below average in terms of functionality and it would serve to weaken a vibrant internal control system. Thus, all the components significantly underpinned the internal control system in A.M.A.

Capability of the internal control system in A.M.A

The findings in relation to capabilities of the internal control system, one finds the three findings previously made very crucial. First, that effective internal control system, to a large extent, identifies and minimizes areas of weakness in the mobilization of revenue at A.M.A. Second, that internal control has contributed to the efficient utilization of revenue at A.M.A. Third, that the internal control in A.M.A was helpful to efficiently projecting revenue performance. These findings imply that the internal control system in A.M.A, to a large extent, fulfills the purposes of identifying and minimizing weakness in mobilizing revenue, efficient utilization of revenue, and efficient projection of revenue performance.

Description of the revenue mobilization at A.M.A

The study finds that revenue mobilization had been undertaken with high level of correctness or integrity. The high point in this occurrence was that revenue collection was always done on time and according to schedule. Here too, this is without admitting that lapses do not exist. A major problem found was that some revenues collected found their way to places not designated for them. In other words, some revenues were not deposited at the right centre in AMA. Invariably these revenues would be lost to the organization. In general, however, it is expected that desirable outcome would come from the revenue mobilization activities of AMA, all things being equal.

The effect of internal control system on revenue mobilization in A.M.A

A correlation analysis performed between internal control system functionality and revenue mobilization in AMA yielded a significant positive relationship. This implies that the way in which internal control system functioned was found to be positively correlated with the propriety in revenue collection. Narrowing further down, the result shows that at any given point that internal control system functioned optimally, revenue collection was enhanced accordingly.

The findings above gave the impression that the functionality of internal control system had a significant influence on the efficiency or effectiveness of revenue mobilization activities in A.M.A. This implies that but for the internal control system achieving some purpose, revenue mobilization would have gone down. In other words, functioning internal control systems significantly enhance revenue mobilization. In previous findings, apart from the risk assessment which fell significantly below average all the components of internal control system in AMA had significantly lead to the existence of a optimized revenue mobilization activity. A drop in the functionality of internal control system would mean a reduction in the vibrancy of revenue mobilization.

Identified challenges facing the internal control system and revenue mobilization in A.M.A

The first challenge found is the low risk assessment activity within the A.M.A. This is due to the fact that the study recorded significantly low scores for risk assessment. Secondly, control activities posed a challenge in the area of management's inability to review and approve all financial transactions. In information and communication, there was concern that complaints were not handled properly. In monitoring, the challenge was that management partially failed to consider audit findings and recommendations and take appropriate action. Challenges found from the point of view of respondents are that, there is lack of information and education of the populace and staffs on projects undertaken by the AMA. Another leg of the challenge was lack of logistics for staff of the Assembly. Administrative support in aspects of internal control and financial matters were not forthcoming. This, to some, led to high attrition among staffs as they sometimes battled on who was to do what. In strict terms of revenue collection, the challenge is, people do not see the usefulness of paying levies to their local Assemblies. Also on the field, there has been the problem of difficulty identifying IDs.

Conclusion

This research showed that there are internal control systems in Accra Metropolitan Assembly. Management is responsible for the management of the internal control systems which is basically directive in nature. Based on the findings, the study concludes that the internal control system in A.M.A is functional and to a larger part effective. This system is supported by a clearly defined organizational structure and formulation of important policies and expectations, as well as documentation of actions and decisions. The internal control system fulfills the purposes of identifying and minimizing weakness in mobilizing revenue, efficient utilization of revenue, and efficient projection of revenue performance to a large extent. This is not to say that the system has no challenges. There are challenges with risk assessment. Control activities posed a challenge in the area of management's inability to review and approve all financial transactions. In information and communication, there was concern that complaints were not handled properly. In monitoring, the challenge was that management partially failed to consider audit findings and recommendations and take appropriate action. Revenue mobilization is undertaken by A.M.A to a satisfactory degree. This is made possible because the staff duly collect revenue according to schedule. A major setback is where revenues collected do not reach their rightful designation and, thus, is a loss to the organization.

The study concludes that there is a significant relationship between the internal control system and revenue mobilization in AMA following a Pearson's Correlation analysis between the functionality of internal control system and revenue mobilization of the organization. If the internal control system were to be enhanced, one can be confident that the revenue mobilization would improve accordingly. However, if the internal control mechanism were allowed to rot, it can be expected that the revenue mobilization system would breakdown.

5Recommendations

The recommendations based on the findings of the study are as follows;

5.1 Communication

Management should ensure that regular communication regarding internal control systems, as well as findings and recommendations (from this research), should be clearly defined and circulated to all units within the organization to ensure that the internal control principles are fully understood and correctly applied by all.

5.2. Ensuring sufficient competency

The governing body, management and other participants in the organization's governance system should be sufficiently competent to fulfill the internal control responsibility associated with their roles. There should be training and development of the audit staff to ensure effective discharge of their duties.

5.3 Monitoring and Evaluation

Both individual controls as well as the internal control systems as a whole should be regularly monitored and evaluated. There should be Continuous monitoring and evaluation of the internal control structure to ensure that it is well designed and operating, appropriately updated to meet changing conditions, and providing reasonable assurance that the objectives of the firm are being achieved.

5.4 Independence

The tendency for management to pry into the activities of auditors especially internal audit department is very high. The auditor should be and must be seen to be independent within an acceptable line of responsibility and clear terms of authority. Thus the independence is manifested in the responsibility structure, their mandatory authority and approach to work.

5.5 Responding to Risk

Controls should always be designed, implemented and applied as a response to specific risks and their causes and consequences. The organization should establish strategies for identifying risk and identify ways to mitigate the identified risks.

5.6 Provision of adequate logistical and security support

Management should provide vehicles for field collectors for effective revenue mobilisation. Protective clothing, uniforms and secured bag for cash and cheques collected should be made available for the collectors as well as field notebooks, identity cards and other relevant stationary items. The Assembly should also provide security guards or personnel to protect revenue collectors' whiles they are on field.

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