

THE ROLE OF INTERNAL AUDIT REGIME IN GHANA: TOWARDS IMPROVED GOVERNANCE AND ACCOUNTABILITY

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ABSTRACT

The significance of the internal audit task was recognized in the private sector to a great extent previously than in the public sector. Never the less, it has become a topical issue of discussion in modern times and a vital part of public sector supremacy as well as, monetary management improvement in many emerging countries. The audit task happens to be a fundamental component of government financial administration system and a tool for improving performance in the public sector. The call for good governance and answerability has forced governments to display a stronger sagacity of conscientiousness in the use of Public finances and competence in deliverance of service. Government nowadays is big, extra multifarious, so it calls for better aptitude and professionalism from internal auditors to make sure that scare funds be developed more proficiently in order to reduce and to deal with the associated risk

This research paper is intended to assess the contribution of internal audit function in ensuring good governance and answerability in the public sector of Ghana. It also assess the usefulness of the internal auditing function as an apparatus of good governance and accountability when juxtapose with requirements of the institute of internal auditors' standards and other generally acceptable practices.

Furthermore, it assess the arrangement, objectives and mandate of an internal audit function, considers the nature of internal audit practice and the degree to which the institute of internal auditors' standards of professional practice are followed in carrying out the function.

It also appraises the role played by internal audit function in the public expenditure management (PEM) system.

Data for the study were collected from existing literature and inquiry by means of interviews with the internal auditors in the MDAs and the MMDAs and the officials from the internal audit agency (IAA) of Ghana. The internal audit agency is a supervisory body that oversees to internal auditing activities in state institutions.

Auditing function in Ghana follows a similar structure.

This research identifies a few of the elements or problems that obstruct effective performance of internal auditing in the public sector of Ghana, these include but are not limited to: lack of management proactiveness and ability to utilize the usefulness of internal audit function, attraction of staff with the required skill and competence, and acuity of internal audit being part of normal catchphrase of "public accountability".

Fortunately, government recognizes weakness in running and supervising public internal control systems, and as a result the internal audit activities and procedures are being strengthened. The authenticity of internal audit activity and its operation should be tacit, assisted by chosen Government Officers, as well as Public Sector Internal Auditors.

Finally, the paper proposes the establishment of an internal audit reports implementation committee, to add value to internal auditing function as a service in the public sector. In conclusion, the researcher makes recommendation for improving internal audit practice in Ghana.

The role of Internal audit regime in Ghana: towards improved governance and accountability.

1.0 Introduction

It is not uncommon to read media reports, on almost daily basis, about fraud, corruption, diversion of funds, and many other forms of malfeasance in the public sector of Ghana. An example of such issues is the recent report of ghost names in the government payroll. It was reported that "the government is paying GH¢3.6 billion to 7,100 ghost workers monthly" (daily graphic, June 22, 2001:1). Wiredu (2002) confirm the problem by suggesting "corruption is endemic in all parts of the national lives of the country and all efforts

must be made to eradicate it". Why has this canker found itself within the sector so long a Time? One of the answers to this may be that much effort has not been made towards finding the roots of the canker for its subsequent check.

In our quest to combat the menace, a study into the activities of the sector that are susceptible to fraud and corruption cannot be over emphasized.

Admittedly, there have been a lot of legal reforms in the public sector financial management system over the past decades to bring sanity in public spending and to reduce the level of corruption in civic service. One of such reforms pursued by the government of Ghana is the public financial management reform programme (PUFMARP). These reforms are meant to bring macro-economic stability, probity and judiciousness within the use of public funds. The promulgation of the Administration Act, 2003 (act 663), the internal audit agency act of 2003(act 658) are legislative inroads that have been made with the aim of improving governance systems. Government these days is huge, further intricate and calls for superior skill and professionalism for Internal Auditors to ensure that resources are deployed more efficiently and to minimize corruption. Governance systems in the public sector have evolved over centuries in the developed economies. For developing countries, especially Africa, the need for sound financial administration of the public resources is an even more critical issue Most African countries are moving from the state managed budgetary allocation system to a de-centralized system of public budgetary allocations where the budgetary authority is transferred to the Ministries, Departments and Agencies (MDAs) and Metropolitan, Municipal and District Assemblies (MDAs) in order to guarantee competence and efficacy in the application of state resources. Enhancement of public financial administration system has therefore recently become a key discussion item in the reform of the public sector and in the development of modern governance systems. Following from this, more research works have occurred in the United States and across Europe where the subject is well established as a significant focus of the public sector reforms research. Citations of various studies conducted in the industrialized economies of U.S.A. and U.K. generally attest to the

fact that good governance systems and practices are important for the efficient financial administration of public sector. (Brown and Caylor 2004, Gompers et al 2001, Mickensey, 2000 and Work Bank Report 1999. In the united states in particular, following the collapse of corporate giants like Enron and WorldCom, there has been legislative reforms that are meant to ensure good financial administration, accurate and reliable financial reporting of all public limited companies. New standard and increased regulations brought about the Sarbanes –Oxley Act of 2002, now defines the post-Enron landscape and the integrated internal control framework known as the COSO philosophy. The Sarbanes –Oxley Act makes some stringent provisions for improving the accuracy and reliability of corporate disclosure of public companies with the view to protecting investors in particular. The Act calls for the establishment of an independent board of directors that has an oversight responsibility of the company and its management. From this board can be formed audit committee of at least three members, including a financial expert with special attributes. The additional role of the audit committee in reviewing timely reports of the independent auditor, and the determination of compensation for and approval of non-audit services performed by the independent external auditors are further highlighted. Across the world, not only is internal audit now highly regarded, but also rightfully perceived as an absolute critical component of good governance and an integral part of the achievement of corporate goals. With the enactment of the internal Audit Agency Act (Act 658), in Ghana, the recognition of the role of internal auditors to assist organization in fulfilling its responsibilities and achieving its goals has been highlighted. This function of internal auditors is hoped to be achieved with integrity and professionalism through the work of the Internal Audit Agency in Ghana. This research paper would therefore examine the importance of internal audit to public sector organizations and the fundamentals of public governance and accountability.

2.1.0 Theoretical Overview

An economy's resources are either owned by private individuals or collectively owned by the entire citizenry. The resources are more

often than not administered through an organization (including companies, agency, trust, ministry and the like) under such organization, the owners of the resources entrust the utilization of these resources into the stewardship of a “management team” such as a Board of Directors or Governors or Trustees-who then oversee the day-to-day administration of resources into achieve certain objectives.

In order for the management team to ensure that the goals of the organization are achieved, risk management, controls and governance processes are established for which Management endeavors to secure compliance. Good governance of the organization requires proper management to achieve the objective of the organization. This requires accountability and compliance to all relevant regulations, laws and established operational processes.

The government of Ghana, as part of reform in the public sector financial management system has secured the promulgation of laws that improved good governance in public sector administration.

One of such laws meant to promote good governance is the internal audit agency act 2003 (Act 658). This Act establishes the internal audit agency (IAA) as a vital agency to co-ordinate, and supervises internal audit activities within the MDAs and MMDAs in order to secure quality assurance of internal audit within the public service.

A lot of research has been carried out on how auditing enhances or promotes public sector governance and accountability. There is little evidence however, about how effective internal auditing helps in enforcing monetary probity, enhancing fiscal governance and reducing corruption in the public sector of Ghana. The problem may not be different from other countries in Africa, where staff in the public sector are poorly remunerated, have low ethical standards and governance practices are ineffective. Much as there is an increasing interest in the recent past in research on public sector governance and accountability in Ghana, no particular research has focused specifically on the role played by public sector internal auditing.

2.2.0 Data Collection Techniques

Two approaches were used to collect data, explicitly existing literatures were reviewed, and also interviews were conducted to get exact/primary data. The study relied on both

primary and secondary data. Secondary data was obtained from annual reports (2005 and 2006) issued by the Internal Audit Agency, the internal audit agency act of 2003 (Act 658) and other academic and research journals. The primary data was obtained through questionnaires, interview and observations.

The study adopted a field survey approach to data collection. In this approach questionnaires were designed and self – administered to the respondents, the auditors working in the MMDAs and MDAs.

In all, purposive sampling technique was used to sample 12 Ministries, 18 Departments, 10 districts out of the total 16 districts in Greater Accra and 10 Agencies involving 125 internal auditors. The researcher also arrange interview as with key personnel at the internal audit agency such as the Director of human resources and the Director of operations of Internal Agency.

The data gathered was both quantitatively and analyzed. The quantitative analysis involved the use of charts, tables and graphs to summarize and present the quantitative data. A detailed description of the research methodology is provided in chapter four of this study.

2.3.0 Analytical Framework

The responses gathered from the questionnaires and interviews granted were ranked and their significance tested in line with the hypothesis. Simple percentages were used for the rankings.

2.4.0 Hypothesis

The following hypothesis were formulated and tested in achieving the main research objectives:

H1: There is a significant relationship between Good Governance Practices and the role of the Internal Audit Agency.

H2: Good Governance Practices in the public sector are essential to ensure proper utilization of public resources.

3.0.0 Major Findings/ Analysis of Results.

The researcher assessed the qualification of the respondents and the feedbacks gotten are tabulated below. The intention was to assess and form an opinion on the level of appreciation of internal audit functions by internal auditors and whether they possess the

required experience and knowledge to be able to perform their auditing duties.

Table 1 Qualification of Respondents

Qualification	Number of Respondents	Percentage (100%)
ICAGA/ACCA	27	22.2
Master Degree In Accounting And Finance	30	25
Masters Degree In Other Fields	3	2.5
Bachelor's Degree/ HND In Accounting & Qualification	54	45.0
Pre- Tertiary Qualification	6	5
Total	120	100

Source: Field Survey, february2016.

From table 1, it could be seen that the professional qualifications of the respondents are below expectations. Only approximately 23 percent of them are fully qualified Chartered Accountants, while none of them belongs to the Institute of Internal Auditors (IIA).

3.1.0 Internal Audit Functions As Part of the Accountants General's Department

The preliminary investigations from the research, coupled with the interviews conducted revealed that, the internal audit task is centralized and placed under supervision of Accountant –Generals' Office. A threat frequently linked with this arrangement is that, there is the likelihood that an officer performing accounting duties may later on be asked to perform internal audit duties in the same or related department. This was the structure in Ghana before the passage of the internal Audit Agency Act in 2003. In Swaziland and Tanzania, the internal audit functions of Government rest with the Accountant General's Department.

3.2.0 Internal Audit as Part of the Auditor-General's Office

The study reveals that in some countries internal audit is an occupation of the supreme audit institution (SAI). This system is not very popular these days, as most countries are moving away from the practice of combining

internal and external audit function under same institution. Where such system or arrangement exists, internal auditors report only to the Auditor-General and are subject to professional, technical guidance and supervision for only the auditing function. This was also the practice in Ghana before the transfer of internal audit task/authority to the controller and Accountant-General's Department in 1988.

3.3.0 Role of Internal Auditors in the MDAs

Internal audit is part of the management function that appraises the internal controls and operational systems to ensure that they are functioning in with the objectives set by management. A contemporary internal audit should assume a consultative services approach to help management in monitoring every aspect of the organization. From the interviews the researcher had with internal auditors in the MDAs and the staff of the audit service, it came out clearly that there is a misconception about the role that internal audit are suppose to play in the MDAs or the organization, most of the interviewees perceive internal auditors as policemen, who finds pleasure in finding faults with staff in the organization. The internal audit standards, however, require internal auditor's relation with other staff in the organization to be based on mutual conference, understanding of each other's need and reciprocal desire for cooperation. This affects the way they carry out their functions and promote cooperation. This affects the way they carry out their functions and promote cooperative attitude among other workers that they audit.

3.4.0 Management Support and Recognition for Internal Audit Functions in the MDAs.

The results from the interviews held with some of the internal auditors show a mixed response among internal auditors in the MDAs whether top management recognizes the function of the internal audit unit and whether they lend support to the internal auditors to enable them carry out their duties. Majority of the internal auditors admits that lack of top management support for internal audit function is a major cause of effective internal audit in MDAs. The conclusion is that, management support for internal audit function is not strong enough to achieve the desire impact on the internal audit function.

It also appears that internal audit function is neglected in the financial management

initiative of most developing countries, including Ghana. The 2005 annual report of the Internal Audit Agency confirms this when it mentioned that there was no documented framework to guide the certified practice of internal audit check in the government sector, while technical and administrative support for internal audit was also lacking. Results from the researcher's interview revealed that there were two main factors for the neglect of internal audit function.

Firstly, Lack of funds to establish and run an effective internal audit unit. Secondly, lack of top management appreciation of the usefulness of internal audit services to the organization.

3.5.0. Management Action on Internal Audit Reports

The extent of recognition of internal audit report findings and recommendation is another indicator of how management views internal audit function in the organization. A management that takes internal audit work seriously is like to show a greater interest in the issues raised and recommendation made by taking quick action on these reports.

Respondents were asked to rate management action on internal audit report and result is shown in the table 2.

Table 2. Management Action on the Internal Audit Reports.

Responses	Number of Respondents	Percentage (%)
Excellent	0	0
Very Good	0	0
Good	20	16.7
Fairly Good	40	33.3
Weak	60	50
Total	120	100

Sources: Field Survey, February 2016.

Unfortunately, 50 percent of the respondents described management action on internal audit report as weak while 33.30 percent say it is fairly good. This implies that management is only committed in principle to improving internal function but fails to walk the talk.

4.0 Discussions/Explanation of Results

In spite of the interesting insights revealed by the study, it has some limitations. The fact remains that it utilized purposive sampling relying mainly on data gathered from the Internal Audit Agency as an oversight body and that the perceptiveness of a more balanced position on the state of internal audit task was denied.

This is a general drawback of studies utilizing this research method. Nevertheless, the information obtained from the oversight agency reflects to a larger extent the current state of internal audit practice in the Public Sector of Ghana and supports the conclusions arrived at and the recommendations put forward.

5.0.0 Conclusions/future works

On the whole, the study shows that internal auditing is receiving some attention in the public sector of Ghana. That is to say that, something seems to be done on the need to strengthen the internal audit function. The development of effective internal audit systems is therefore crucial to the Public Financial Management Reform Programme and cannot be successful without modernizing public internal audit and control systems.

Internal audit activity and its operation should be understood and supported by all stakeholders. Some elements of the legal framework within which internal audit operates will require fine-tuning in the nearest future as the implementation progresses and the challenges identified are revealed. The inclusion of investigative powers and responsibilities in the functions of the internal Audit may further compound the perception on internal auditors as "policemen" to the organization rather than a management tool and lead to further alienation of internal audit function.

There are several challenges facing the professional practice of internal in the public sector of Ghana, some of which are known are being addressed by the oversight agency. Notably, the attraction of competent staff and especially ability to retain them is of key importance. A high turnover of staff in the near future will derail the achievements of the Internal Audit Agency and deny it of the fruits of human and financial resources invested in the training the internal audit staff.

Finally, the success of a modernized public sector internal auditing will require both paradigm and cultural shift by internal

auditors, government and management of public sector entities. Indeed everyone in decision-making position in the public sector needs to be concerned about the risks that may threaten the accomplishment of the objectives of public sector entities and its impact on the government service delivery. Internal audit should be seen as a value added function to management and not a tool of harassment.

5.1.0 Recommendations

First, Internal audit function needs to adapt to demanding and changing civil sector environment, in order to help state institutions in improving public monetary controls, risk management and governance processes.

Second, a well-built internal audit function can serve as a valuable tool not only for MDAs and MMDAs but also extended to all public and quasi-public institutions that perform public sector functions. An internal auditing function should be established in all types of public institutions such as public colleges, universities and hospitals but to name a few, and all institutions created to serve a public purpose and to be subject to quality assurance review by internal audit agency.

Third, there should be audit report implementation committees (ARICs) in all public sector entities. The audit report execution/ implementation committee should be chaired by outside members who are autonomous of the management of the public sector entity and who have the crucial expertise to perform their function successfully.

These recommendations are proposed to balance the hard work of the Internal Audit Agency and also to enhance quality and excellent performance of internal auditors in the public sector.

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