PRESENTATION ON IMPLEMENTING AUDIT RECOMMENDATIONS: CHALLENGES AND WAY FORWARD

BY: MR. RICHARD KWAME ASANTE

OBJECTIVE OF PRESENTATION

Ladies and Gentlemen, I have been tasked to do a presentation on the topic “Implementing Audit Recommendations: Challenges and the way forward, within the overall theme: Internal Audit; An Effective Management Tool for Good Governance.

I believe that the reference to Audit Recommendations will cover both Internal Audit Work and reviews and the recommendations arising out of the work of the Auditor-General in relation to the public sector organizations (i.e. MDAs and MMDAs).

My presentation will seek to highlight the audit operational framework and context and the challenges therein and drawing on the practice and experiences within our Public Sector.

STRUCTURE OF PRESENTATION

1.0 INTRODUCTION

1.1 GOVERNANCE

1.2 ROLE OF AUDIT IN CORPORATE GOVERNANCE

1.3 INTERNAL AUDIT FUNCTION/REPORTING

1.4 AUDIT RECOMMENDATIONS/IMPLEMENTATION

1.5 AUDIT INSTITUTIONS (STANDARDS/REGULATION)
   1.5.1 INTERNAL AUDIT AGENCY (IAA)
   1.5.2 GHANA AUDIT SERVICE

2.0 AUDIT REPORT IMPLEMENTATION COMMITTEE (ARIC)

3.0 PUBLIC ACCOUNTS COMMITTEE

4.0 CHALLENGES

5.0 WAY FORWARD
1.0 INTRODUCTION

1.1 Governance

Just to throw in some context for our discussion today, I will define governance as “describing the role of the persons entrusted with the supervision, control and direction of an entity.” So depending on jurisdiction different bodies have different responsibilities for Corporate/Institutional governance – Board of Directors, Audit Committees, other Supervisory Committees and Executive Management.
1.2 **Role of Audit in Corporate Governance**

Risk is inherent in the decisions that an organization takes to manage and run its business and in the business processes established to assist in the achievement of its business objectives. The economic slowdown in recent years; and the various fraud, related bankruptcy and poor performance of Institutions have led Board and Audit Committees to leverage the internal audit function to mitigate a wide array of risks that businesses and institutions face.

Internal audit does play an important assurance role in an organization's governance processes, particularly in the area of risk management and control. Internal Auditors are expected to contribute to the continuous improvement strategies of an organization without impairing its objectivity and independence. The Internal Auditors Role involves providing guidance and expertise in areas including but not limited to corporate governance, Enterprise Risk Management (ERM), Fraud Policies, and prevention, Information Technology Systems in addition to the traditional area of internal controls. As a result of the broad scope of audit, internal auditors are now required to highly educated, and have increased knowledge and expertise.

Internal auditors are not responsible for corporate governance and the execution of a company or organization related activities; they advise Management and the Board of Directors (or similar oversight body) regarding how to better execute their responsibilities.

1.3 **The Internal Audit Function/Reporting**

1.3.1 **Function**

The Institute of Internal Auditors (IIA) describes internal audit as an independent, objective assurance and consulting activity designed to add value and improve an organization’s operations.

The scope of internal auditing within an organization is broad and covers an organization's governance; risk management and management controls; efficiency/effectiveness of operations (including safeguarding of assets); the reliability of financial and management reporting; and compliance with laws and regulations. Internal auditing may also involve conducting proactive fraud audits to identify potentially fraudulent acts; participating in fraud investigations under the direction of fraud investigation professionals, and conducting post investigation fraud audits to identify control breakdowns and establish financial loss.

Consistent with its mission, the Internal Audit Unit provides management with information, appraisals, recommendations, and counsel regarding the activities examined and other significant issues.
1.3.2 Reporting

Internal auditors typically issue reports at the end of each audit that summarize their findings, recommendations, and any responses or action plans from management. Each audit finding within the body of the audit report may contain five elements in line with best practices, sometimes called the "5 C's":

(a) Condition: What is the particular problem identified?

(b) Criteria: What is the standard that was not met? The standard may be a company policy or other benchmark.

(c) Cause: Why did the problem occur?

(d) Consequence: What is the risk/negative outcome (or opportunity foregone) because of the finding?

(e) Corrective action: What should management do about the finding? What have they agreed to do and by when?

A new C that we may look at is Comment: What is the Management Response. This is crucial in Audit Reporting.

1.3.3 Quality of Internal Audit Report

Because this is so key and impacts ability to effectively implement audit findings, I will want us to take some time to look at what a good audit report should have.

(a) Objectivity - The comments and opinions expressed in the Report should be objective and unbiased.

(b) Clarity - The language used should be simple and straightforward.

(c) Accuracy - The information contained in the report should be accurate and factual.

(d) Brevity - The report should be concise.

(e) Timeliness - The report should be released promptly immediately after the audit is concluded, within a month.

1.4 Audit Recommendations/Implementation

Basic to effective audit work are recommendations that, which when adequately implemented will accomplish defined and worthwhile results. Audit Recommendations must state a clear convincing and workable basis for implementation. The utility and continued relevance of recommendations should be continuously re-evaluated as follow up actions progress.

The recommendations in an internal audit report are designed to help an organization achieve effective and efficient governance.
Audit findings and recommendations tend to relate to particular assertions about transactions, such as whether the transactions audited were valid or authorized, completely processed, accurately valued, processed in the correct time period, and properly disclosed in financial or operational reporting, among other elements. It is an entity’s responsibility to manage the implementation of audit recommendations to which it has agreed, including determining an appropriate strategy to help achieve timely and effective implementation. Primary responsibility for implementing audit recommendations lies with senior Management in the organization and also the business unit subject to the audit.

While the implementation of audit recommendations is a management responsibility, the internal audit function is well placed to monitor the progress of implementation. Effective monitoring requires a system that accurately tracks progress and records the actions of program managers responsible for progressing action against timeframes.

1.5 Audit Institutions

1.5.1 The Internal Audit Agency (IAA)

The Internal Audit Agency, Act 2003 (Act 658) established the Internal Audit Agency (IAA) as an oversight body with a mandate to co-ordinate, facilitate and provide quality assurance for internal audit activities in Ministries, Departments and Agencies (MDAs) and Metropolitan, Municipal and District Assemblies (MMDAs).

As required by the Act, IAA provide a means for keeping the MDAs and MMDAs fully and currently informed about problems and deficiencies related to the administration of their programmes and operations and the necessity for appropriate corrective action.

Upon carrying out its mandate, the IAA reports to the Head of the various public organizations and agencies and makes recommendations on how to improve their internal processes and adhere to best standard practices.

1.5.2 The Ghana Audit Service

(a) Under existing governance arrangements, the assurance-seeking activity of citizens has exclusively been conferred on the Office of the Auditor-General. In Ghana’s case, this function has not only been provided for in the Constitution but has also been entrenched by the Constitution. The Auditor-General is thus required by the Constitution to audit annually the public accounts of Ghana and of all public offices including the Courts, Central and local government administrations, the Universities, public institutions, corporations and companies or anybody or organization established with public funds, in other words, the funds of the people or citizens.

(b) The Auditor-General is to report his findings and recommendations from audits undertaken by his Office to Parliament, which is expected
to debate this on behalf of citizens, as received and presented by the Public Accounts Committee and appoint, where necessary, in the public interest, a Committee to deal with matters raised.

(c) An Audit Report Implementation Committee for each audited body or organization established under the Audit Service Act, 2000, Act 584, is required to follow up on recommendations of the Auditor-General endorsed by Parliament and provide information, through the relevant sector Minister, to the Office of the President, Parliament and the Auditor-General, action taken on the report of the Auditor-General. In subsequent reports to Parliament, the Auditor-General is required to state whether appropriate action has been undertaken to his satisfaction. This completes the cycle of financial accountability and institutional arrangements for the discharge of the obligations of the Auditor-General to the citizens.

2.0 THE AUDIT REPORT IMPLEMENTATION COMMITTEES (ARICs)

A corporate governance practice common in the private sector is the use of audit committees which have greatly strengthened the independence, integrity, and effectiveness of audit activities by providing independent oversight of the internal and external audit work plans and results, assessing audit resource needs, and mediating the auditors' relationship with the organization.

It is as a result of the above coupled with the attestation that Audit Committees could be used as an Effective Management Tool for Good Governance that led to various Bodies and Governments across the Globe insisting on the establishment of Audit Committees to play a similar role in the Public Sector.

Thus the framers of the Ghana Audit Service Act, 2000 (Act 584) introduced Audit Report Implementation Committee (ARIC) into the Public Service to perform the role of Audit Committees in the Private Sector.

2.1 What is ARIC?

An ARIC is a statutory and high level independent corporate governance committee in the public sector instituted by the Ghana Audit Service Act, 2000 (Act 584) to perform the roles being performed by the Private Sector Audit Committees.

Section 30 (1) of the Ghana Audit Service Act, 2000 (Act 584) mandates an institution, body or organization which is subject to auditing by the Auditor-General to establish an ARIC. Section 16 (8) of the Internal Audit Agency Act, 2003 (Act 658) also highlights the need for all MDAs and MMDAs to set up ARICs. This is to augment the call by the Institute of Internal Auditors, International Frame work for Professional Practice (IPPF) of internal auditing requiring organizations to have effective Audit Committees.

Of note is that, at the time of the enactment of ACT 584 there were only three (3) categories of Public Sector Agencies in Ghana out of which the Act derived
the ARIC types from. This is stipulated in Section 30 (1) of ACT 584 stated as follows:

(a) the Governing Board or Council of that institution, body or organization where such Council or Board exist by law; or

(b) a Ministerial Committee for Ministries, Departments and Agencies of the Central Government, or

(c) a Special Committee of the District Assembly

The composition of various ARICs is defined in an operating guide developed by the IAA and the Audit Service, which is typically a minimum of five (5) members.

2.2 Roles/Duties of ARIC

The role of the Audit Report Implementation Committee (ARIC) as defined by Section 30 (2) is that “It shall be the duty of the Audit Report Implementation Committee to ensure that the head of an institution, body or organization to which subsection (1) applies”:

(a) pursues the implementation of matters in all audit reports as well as the Auditor-General's reports endorsed by Parliament as well as financial matters raised in the reports of internal monitoring units in the institution, body or organization; and

(b) annually prepares a statement showing the status of implementation of recommendation made in all audit reports as well as the Auditor-General's reports which have been accepted by Parliament and any other related directives of Parliament.

The above duties are complimented by Section 30 (3)-(4) of the Ghana Audit Service Act, 2000, which requires that the above statement shall show remedial action taken or proposed to be taken to avoid or minimize the recurrence of undesirable features in the accounts and operations of the institution, body or organization and the time frame for action to be completed, whiles Section 30 (4) of the Ghana Audit Service Act, 2000 requires that the statement referred to in sub section (3) shall be endorsed by the relevant Minister and forwarded to Parliament, Office of the President and the Auditor-General within six months after Parliamentary decisions on the Auditor-General's report.

3.0 THE PUBLIC ACCOUNTS COMMITTEE (PAC) OF PARLIAMENT

This discussion will not be complete without discussing the role of PAC in the implementation of Audit Recommendations.

The evolution of the proceedings of the PAC to a point where PAC opened its proceedings to the public significantly boosted Parliament’s effort to promote
accountability, combat corruption, strengthen budgetary oversight and improve resource allocation.

The Public Accounts Committee (PAC) is one of the 11 Standing Committees of Parliament. The PAC like all other Committees of Parliament derives its existence from Article 103 of the 1992 Constitution of the Republic of Ghana which states that “Parliament shall appoint Standing Committees and other Committees as may be necessary for the effective discharge of its functions”. In accordance with this provision, the PAC was established by Order 151(2) of the Standing Orders of the Parliament of Ghana.

The primary function of the Committee according to Order 165(2) is to examine the audited accounts of government showing sums granted by Parliament to meet public expenditure and of such other accounts laid before Parliament.

It is only Parliament that grants approval for the withdrawal of funds from the Consolidated Fund to meet the expenditures of government through the passage of the Appropriations Act (Article 178). Having authorized the withdrawal of monies from the Consolidated Fund, Parliament exercises control over the expenditure of such monies through its PAC.

The Public Accounts Committee (PAC) is thus one of the key accountability Committees of Parliament.

Article 187(2) of the 1992 Constitution states that:

“The public accounts of Ghana and of all public offices, including the courts, the central and local administrations, of the universities and public institutions of like nature, of any public corporation or other body or organization established by an Act of Parliament shall be audited and reported on by the Auditor-General”.

It is the financial transactions (including efficiency and cost effectiveness) of these Institutions together with the foreign exchange transactions of the Bank of Ghana referred to in Article 184 of the Constitution, which invariably come under scrutiny during the operations and functions of the PAC.

It appears from the provisions of the Constitution and the Standing Orders detailed above that the Committee’s work is limited to examining only reports presented by the Auditor-General (A-G). However, many have questioned if it will not be proper for the PAC to carry out pre-emptive investigations in the performance of its function as a watchdog Committee of Parliament in matters of public finance. That debate rages on.

In any case, the recommendations of the PAC which after the adoption of the Committee’s Report becomes the recommendations of the House are then forwarded to the Auditees for implementation.
4.0 CHALLENGES IN IMPLEMENTATION OF AUDIT RECOMMENDATIONS

4.1 Tone at the Top

The Genesis of the Sarbanes-Oxley Act (SOX) legislation was that analyses of fraud showed and exposed major weaknesses in top management and the control environment of businesses. The benefits of an audit and the successful implementation of audit recommendations can only be achieved with Management support.

Leadership must thus be sensitized to and be convinced of the impact audit can have on compliance, quality, business, continuity and improving operational performance, in order to achieve complete support for the Internal Audit function.

The Management of MDAs and MMDAs in Ghana however, are so constrained and by their action or inaction impede the successful implementation of Audit recommendations. There is sometimes:

(a) Lack of appreciation of the Internal Audit function resulting in weak support by Management.
(b) Lack of commitment and political will.
(c) Conflict of interest issues.
(d) Delays due to their divided attention on numerous activities.
(e) Lack of understanding of the requisite standards and the resources required to implement process improvements.
(f) Lack of effective monitoring systems (Non performance appears not to be a big issue in the public/civil service).
(g) Untimely preparation and submission of Audit Reports (over 3 to 6 months reporting after end of audit period).
(h) Lack of cooperation among key stakeholders.
(i) Late submission of financial statements to the Auditor General for audits to be conducted.

The reports to Parliament are usually far back in time to make findings of PAC relevant to minimizing the losses to the State.

4.2 Quality of Audit Recommendations (Both Internal & External)

Poor quality reporting such that the audit findings gets disputed and audit recommendations does not get implemented and these arise as a result of the following:
(a) Inexperience of auditors/poor skills and training of IA staff.
(b) Lack of auditors knowledge of the MDAs/MMDAs practical working environment
(c) Unclear audit objective at the planning stage of the assignment
(d) Lack of report writing skills
(e) Unmotivated Auditor
(f) Recommendations do not address the weaknesses reported in the factual find.

4.3 ARICs role in the implementation of recommendations

(a) For some institutions, the ARICs do not take their mandate from the Board of Directors. Nor do they report back to the Board Directors. This undermines the implementation of audit recommendations and undermines governance.
(b) Lack of adequate knowledge and skills among members of ARIC
(c) Independence of members of ARIC may be compromised
(d) Lack of proper understanding of the role of ARIC
(e) Non-performance of the assigned role and responsibilities

4.4 Composition of ARIC Membership

Although the operating guide is clear on the composition, apart from the two external representatives from IIA and IAA, who tend to have financial accounting, audit and governance knowledge, the other members’ background might raise a lot of questions as to the following:

(a) Their Independence to instruct either the Chief Director or the Hon. Minister on delicate issues in their presence for obvious reasons.
(b) Expertise of the membership (some lack financial and auditing knowledge and understanding of the MDA/MMDAs risks, control and governance processes).
(c) Some Members sometimes may not be committed to the course in terms of dedicating sufficient time to the work of the ARIC.
(d) At the district levels, and other places where there is one representation for IIA or IAA on ARIC, their absence means no quorum so the ARIC meetings are not held. The definition of quorum for the ARIC for such institutions would have to be relooked at.
4.5 Commitment of Established Accountable Institutions

There is disconnection between the ARIC and the Ministerial Advisory Board of the Ministries coupled with a lack of commitment from the established Accountable Institutions to the activities of ARIC.

Some established Accountable Institutions like, the office of the President, Parliament, Judiciary, Internal Audit Agency and the Auditor General, may not have shown any sign of their commitment to the activities of the ARIC as follows:

(a) ARIC annual reports sent to them may not even be acknowledged, let alone be reviewed.

(b) Evaluation of the ARIC which is backed by Section Act 584 may not have been done by the Auditor General.

4.6 Lack of Resources to finance audit recommendation implementation processes

(a) The ARIC itself depends on management to call meetings to discuss the implementation status of some recommendations. Unsupportive management may only call for a meeting only when it suits them.

(b) The Audit Committees are sometimes starved of resources to the extent that meetings are not held and follow up on audit recommendations becomes a problem (this happens in most of the Assemblies).

(c) Allowances and logistic to organize meetings are provided by management which could easily affect the Committees independence.

(d) Management not committed enough to the improvement change recommended will not allocate the needed resources that are required to effect the change.

4.7 Lack of Legal Mandate

Lack of legal mandate and authority for some Public Institutions to take direct actions against perpetrators in order to serve as deterrent to others, for example:

(a) An employee of a Ministry cannot be sacked without recourse to OHCS Council and sometimes the Attorney General’s Department.

(b) CBAs of some public institutions affect the ability to implement some audit recommendations effectively.

(c) Strong labour unions will always protect their members from being sanctioned no matter what to show their solidarity.

(d) The justice system interferes sometimes (e.g. staff whose appointments are terminated get reinstated by the courts in sometimes bizarre circumstances).

5.0 THE WAY FORWARD
5.1 **Tone at the Top**

Firstly, Management accountability must be improved and the Governing Board and Management Support obtained through training. Board and Management performance assessments if implemented effectively will push Managers of our Institutions to support the IA.

The Internal Auditors should assess the Board and Top Management. This assessment of the Top Management and Board’s oversight role should address considerations such as whether the necessary resources and tools have been dedicated to the compliance and risk management effort; and whether the Board of Directors and Senior Management through their words and actions are communicating the importance of risk awareness across the Institution.

The Audit Committees must work to approve the internal audit responsibilities and planned programs.

5.2 **Quality Recommendations/Reporting**

Auditors can do a great deal to improve the likelihood that audit recommendations will be appropriately implemented through the quality of the recommendations.

Basic to effective audit work are recommendations that, when adequately implemented, accomplish a defined and worthwhile result. They must state a clear, convincing, and workable basis for implementation. Their utility and continued relevance should be re-evaluated as follow-up actions progress.

Whether audit objectives are achieved depends on the quality of the recommendation. A recommendation that is not convincing won’t be implemented. A recommendation that does not correct the basic cause of a deficiency may not achieve the intended result.

5.2.1 **Properly Directed**

Recommendations should be directed to those who have responsibility and authority to act on them. They must be clear about who the action person is. For example, “We recommend that the Director of Finance should……”. The purpose of this is to ensure that responsibility for the recommendation is properly laid on the door step of the responsible officer.

5.2.2 **Management Response**

Response such as “Noted” is not a good enough management response. It is non committal. Auditors should request for responses that demonstrate management acceptance of the change recommendation.

5.3 **Commitment**
When the auditor is committed to the need for action on a recommendation, he/she will do what needs to be done to get it implemented. Without that commitment, a recommendation may not achieve the desired action.

Auditors and audit organizations must be committed to identifying and bringing about needed change. The auditor’s commitment should be personal and professional. The audit organization should be supportive and reinforce the commitment to its staff.

5.4 **Aggressive Monitoring and Follow-ups**

Acceptance of a recommendation does not ensure results; effective implementation does. Continued attention is required until results are achieved.

The audit organization should have a system that provides the structure and discipline needed to promote action on audit recommendations. It should ensure that recommendations are aggressively pursued until they have been resolved and successfully implemented. Also, auditors should assess whether the agencies they audit have a follow-up system that adequately meets their basic responsibility for resolving and implementing audit recommendations.

5.5 **Special Attention to Key Recommendations**

While all recommendations require follow-up, some deal with particularly fraud, and other serious or scandalous matters. They should receive special attention.

Auditors should follow up to ensure that key recommendations are fairly and timeously implemented. They should reassess strategies to get positive action on those recommendations. Outside intervention should be considered when it would help to get necessary action on key recommendations of great significance.

5.6 **Hard-hitting Recommendations**

There should be no doubt that a recommendation has been made. Recommendations should be clearly labelled as such, not hidden, or obscured by text. They should be readily identifiable and stand out in the report.

5.7 **Provision of Quality Audit Recommendations**

(a) Recruitment and appointment of auditors must be based on experience and the auditor must strive to gain good knowledge and understanding of the MDAs/MMDAs working environment.

(b) Clear audit objective must be established at the planning stage of any audit assignment

(c) Auditors need to be trained on good report writing skills

(d) Auditors need to be resourced and motivated
5.8 ARICs must be empowered to have a legal mandate and authority to perform their duty, and also the sanctioning process in the public sector needs to be reviewed to shorten the current process.

5.9 Public institutions should adopt a system of issuing job description/TOR to ARIC members to give direction on what is expected of them.

5.10 Composition of ARIC membership (especially the in-house team) should focus on persons with extensive knowledge and understanding of the MDA/MMDAs risks, control and governance processes and with good financial and auditing background

(a) ARIC members must be motivated enough to elicit their full commitment.

(b) Adequate Resources to finance audit recommendations implementation must be ensured, and this should include servicing of ARIC meetings.

(c) Full commitment from the Accountable Institutions like, the office of the President, Parliament, Judiciary, Internal Audit Agency and the Auditor-General’s Department is needed.

(d) The activities of the Ministerial Advisory Board of the Ministries should include the review of ARIC annual reports.

Having done all this, I will recommend that punitive actions be meted out to agencies who fail to effectively carry out significant portions of recommendations made to them. For instance, money appropriated to the agency could be withheld until they effectively implement the recommendations. Management promotions, rewards and continued appointment as Managers may be tied to the successful implementation of audit recommendations.

In concluding ladies and gentlemen, I will entreat us as professional auditors to ensure that as we carry out our mandates as enshrined in the law and as citizens of our dear nation Ghana not to compromise on the quality of our audit, upholding our integrity and applying professionalism in carrying out our work, so that those who are entrusted with the public purse are made to account.

Thank you.