INTERNAL AUDIT: THE NEGLECTED ELEMENT IN THE GOVERNANCE AND FINANCIAL MANAGEMENT REFORM PROGRAMME: THE CASE OF GHANA

1. Introduction

Yesterday, we looked at the Challenges to Establishing an Effective Organisational Framework for Effective Internal Auditing. Our discussion focused on the essentials of organization and change management implications and challenges of putting an effectively functioning internal audit system in place.

Today, we will are expected to provide real life examples of the challenges Ghana faced as it moved along the road of governance and public sector financial management reform. Making the link between what was happening more generally in the public sector, we are to indicate what internal audit did or did not do and the consequences of making or not making use of internal audit.

The simple fact is that internal audit was and continues to be neglected or at best only given lip service in the governance and financial management reform process in Ghana.

Regarding the broader reform agenda in Ghana, we will walk through what was intended in the reforms, why they were considered desirable; the approach adopted, an appraisal of the achievements, and planned future action. We will also discuss the antecedents and formal recognition of the internal auditing function in the reform process.

2. What Did or Does Ghana Want?

Public Financial Management Reform for Good Governance and Poverty Reduction.

3. Why?

In response to underdevelopment, poverty, increased social awareness, civil strive, and international community.

4. How?

- Previous attempted solutions
- Ongoing reforms
- Some reflections
- Realigned strategy
5. **Attempted Solutions**

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<th>Previous attempted Solutions</th>
<th>Ongoing Reforms</th>
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<tr>
<td>• Recurrent Budget Task Force</td>
<td>• Ghana Poverty Reduction Strategy (GPRS)</td>
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<td>• Capital Budget: Public Investment Programme</td>
<td>• Integrated Personnel and Payroll Database System (IPPD)</td>
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<td>• Financial Sector Adjustment Credit</td>
<td>• Public Financial Management Reform Programme</td>
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<td>• Privatization and Divestiture</td>
<td>• Governance and Public Financial Management Reform Programme</td>
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<td>• Civil Service Reform Programme</td>
<td>• Decentralisation and Local Government</td>
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<td>• National Revenue secretariat</td>
<td>• Public Sector Incomes Policy Administration</td>
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<td>• Economic Management Support</td>
<td>• Reform of Central Management Agencies</td>
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<td>• Debt Recording and Management System</td>
<td>• Health, Education, Forestry, etc. reforms</td>
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<td>• State-owned Enterprises Reforms</td>
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<td>• Reform of Subvented Organisations</td>
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<td>• Special Recruitment</td>
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<td>• Expenditure Tracking and Control and Control System</td>
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6. **Some Reflections**

- Overview
- Shaky development assumptions
- Serious omission of human factor
- Unfair wage discrimination
- Cross border and domestic brain drain
- Mismatch of costs and benefits

7. **Realigned Strategy**

- Overview
- Constraints
- Frustrations
- The realignment
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<th>Constraints</th>
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<th>The realignment</th>
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<tr>
<td>Reform impact negligible.</td>
<td><strong>Critical Processes</strong>, e.g., weak policy design, coordination and implementation <strong>Core Systems</strong>: e.g., rules governing the use of human and financial resources. <strong>Structures</strong>: e.g., unclear mandates, responsibilities and objectives of public sector. <strong>Performance orientation</strong>: e.g., lack of performance oriented management culture, and poor performance and motivation of public servants resulting unsatisfactory quantity and quality of service delivery.</td>
<td><strong>Fragmentation</strong> of change process responsibilities coupled with <strong>Weak coordination mechanism</strong> for the implementation process combined <strong>with</strong> <strong>Unclear and possessive mandates</strong> of the “driving forces” of the change process <strong>with</strong> <strong>Little experience</strong> with the implementation of major reform programmes and <strong>Inadequate capacity</strong> (managerial, staff, administrative, technical) to manage and institutionalize the necessary changes. <strong>Uncoordinated agenda</strong> leads to <strong>workshop fatigue</strong> and apparent neglect of the work for which staff are being paid and further stress on and dislocation of already limited staff.</td>
<td>• Formation and operationalization of Technical Advisory Boards for Ministries. Civil Service Law 1993 PNDC Law 327. • Public Sector Re-invention and Modernization Strategy for Ghana. • Transforming Vision into Reality (PUSERMOS) 1997. Legislative Action in the pipeline: ➢ Financial Administration Bill; ➢ Central Internal Audit Bill ➢ Procurement Bill. More participatory and democratic approach</td>
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8. **Characteristics of Old and New Approaches**

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<th>New Approach</th>
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<td>• Brush fire</td>
<td>• Governance flavoured, e.g., planned, participatory, sector inter sectoral programming, sector wide approach, multi-donor support.</td>
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<tr>
<td>• Unstructured</td>
<td>• Structured</td>
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<tr>
<td>• Uncoordinated</td>
<td>• Holistic</td>
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<td>• Autocratic</td>
<td>• Convergent</td>
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9. **Internal Audit Neglect and Relevant Legislation**

The only law that makes specific provision for the function of internal audit is Financial Administration Decree 1979 S.M.C.D 221. Section 48(3) states:

“The Auditor-General may assign any member of the Audit Service to act as internal auditor for any body or organization for the audit of the accounts of which the Auditor-General is responsible. “

Relevant legislation and what the legislation says about internal audit is noted below:

<table>
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<tr>
<td>Financial Administration Bill 2002:</td>
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<tr>
<td>Section 45(1)</td>
<td>Provides for external audit in accordance with Audit Service Act 2000 Act 584.</td>
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<tr>
<td>Section 45(2)</td>
<td>Provides for internal audit in accordance with the currently non-existent Central Internal Agency Law.</td>
</tr>
<tr>
<td>Audit Service Act 2000 Act 584</td>
<td>No specific mention is made of internal audit. Section 30 on Audit Implementation Committee provides a semblance of Audit Committee.</td>
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States: “The Auditor-General may assign any member of the Audit Service to act as internal auditor for any body or organization for the audit of the accounts of which the Auditor-General is responsible. “

No specific mention is made of internal audit.

10. Consequences of Apparent Neglect of Internal Audit

As indicated above, by existing law, Internal Audit should be within the domain of the Auditor-General who is also the External Auditor. This is inconsistent with accounting and auditing principles and practice.

As to be expected, a major scandal was detected in the Ghana Education Service in the late 1980s. It was found out that combining the internal and external audit functions under the Auditor-General had compromised the effectiveness and integrity of the Auditor-General staff. The external and internal colleagues had colluded to cause a huge financial loss to the state.

Consequently, in 1988, the internal audit function was transferred to the Controller and Accountant-General’s through an administrative arrangement. To date, the administrative arrangement does not have any legal backing. The administrative arrangement has been a source of confusion and bickering. Unresolved issues include

- Questionable mandate
- Lack of control over ride
- Duplication of functions
- Nonexistence or non-performance

11. NEXT STEPS: PUFMARP II Project Cost Allocation, National Budget and International Direction

**PUFMARP II:** The second phase of the Public Financial Management Reform Project (PUFMARP II, 2000) determined that financial management reform would stand a better chance of progressing if the appropriate enabling governance environment were created. For this reason, 22.0% of the total reform amount was allocated to Economic Governance. Another 2.8% was allocated to “Additional Expenditure Controls”.

The percentage project cost allocation is as follows:

- Further BPEMS Roll-Out 58.6
- Economic Governance 22.0
- Revenue Agency Reform 6.4
National Budget Direction: Similarly, the National Budget Statements are beginning to look more like “Plans for economic governance and controlled use of resources” than annual estimate of national revenue and expenditure.” (e.g. Ghana Budget Statement 2003)

International Direction (INTOSAI, IFAC): Furthermore, the direction in performance measurement, evaluation and reporting has moved beyond financial compliance to the broader fields of:

1. Mission and organization structure information
2. Financial information
3. Performance information
4. Governance information
5. Forward Looking information

12. Antecedents of Formal Recognition of Internal Auditing

In 1997, the Minister of Finance attempted without success to set up a Centralized Internal Audit Unit within the Ministry of Finance to oversee and coordinate all internal Audit Functions in the country. The person the Minister identified was unable to take up the position.

In 1999, a UNDP sponsored study reviewed the governance and financial management programme in the country with specific reference to internal auditing. The study confirmed that internal auditing had been neglected in the reform process and that immediate remedial action had to be taken.

Other developments in the country prompted the European Union and other international organisations to support the government to speed up action on establishing an effectively functioning internal audit unit in the country. Terms of reference were put up for the study in 2000 and a contract was awarded in 2001.

13. Formal Recognition of Internal Audit

The first formal recognition of Internal Auditing in the reform process by the Government of Ghana was a study commissioned in April 2001. The terms of reference of the study were:

- Review documentation and consult stakeholders to develop a full understanding of the issues and options;
Assess current internal auditing functions in MDAs and MMDAs to determine their requirements;
Determine the most appropriate set-up arrangements and structure;
Review options complying with international standards in use in other countries;
Review internal auditing functions in selected countries that comply with international auditing standards to draw lessons for the Ghanaian situation;
Suggest realistic options on internal audit and financial control functions complying with international standards;
Determine technical assistance needs to operationalize the organizational set-up and include the provision of the operational requirements of the audit function;
Review existing legislation with a bearing on internal audit and recommend amendments where applicable and, if necessary, develop an internal audit legislative framework; and Develop capacity building programme.

The report was completed and transmitted to the Ministry of Finance on 27 August 2001. The consultant’s report assumed that most of the relevant activities other than training would start in November 2001 and be completed by July 2002. Priority activities include Formation of Implementation Committee, enactment of enabling legislation and appointment of Director-General and other key staff.

The bill is currently in Parliament for consideration. No further progress has been made.

14. Conclusion

We recognize in Ghana that the neglect or absence of an effectively functioning internal audit organization in Ghana creates a vacuum in the country’s governance and financial management reform efforts and initiatives. We also recognize that without a model or framework it is difficult to chart the prognosis of the remedy being administered.

A framework has been developed. The challenges and opportunities that go along with the framework were discussed yesterday.

Knowing that our burdens are temporary enables us to bear them with a triumphant smile. Let us hope that an affectively functioning internal audit system will be put in place in our respective countries to enable us to bear our burdens with a triumphant smile.

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