

## AUDITING AN INSTITUTION: PRINCIPLES AND PROCESSES INVOLVED

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### **Introduction**

One cardinal principle of life which was amply dealt with in NATURAL OR COMMON LAW is the aspect of assessing or judging oneself. The “NEMO JUDEX IN CAUSA SUA DEBETESSE” concept of common law which settles the dust on this rather controversial aspect of man’s life states that “no one can be a judge in his/her own case”. In pursuant with that, it is imperative that one is assessed or evaluated in his or her performance by another person. This evaluation, which can be internal or external depending on prevailing circumstances, will embrace areas such as how financial resources and physical assets, among others, are handled over a period. It will also cover areas such as human resources and pay rolls as well as procurements and stores management and physical inspection of relevant documents and assets when public and private entities come under scrutiny.

This piece seeks to offer some insight into the concept of auditing, its legal frameworks and mandates, principles and processes Involved in auditing. It also explores other areas such as the role of managers and auditors as well in ensuring successful auditing and the benefits to be derived from auditing as regards the operations of public offices such as health care institutions, especially hospitals.

### **The Concept of Auditing**

Audit simply means appraisal, inspection, stocktaking, assessment, examination, inter alia. It dates back to ancient times. However, modern way of auditing started in the 19<sup>th</sup> century. During the industrial revolution, the quest for larger businesses eventually collapsed sole proprietorships and gave birth to partnerships, joint ventures and mergers. Consequently, management of such huge entities was ceded to a group of experts while ownership rests in the hands of people known as shareholders. Businesses are therefore run for owners by other people who are accountable to them. In order to ensure transparency, the managers’ submissions on their performance have to be examined to ensure that they are doing the right thing. Owners of businesses therefore find other people to do this on their behalf. These people are called AUDITORS.

Auditing therefore can be done within any agreed period but between management and the auditors. However, modern - day auditing usually covers transactions within a period of one year.

### **Types of Auditing**

Generally, there are two main types of auditing; internal and external auditing. Internal auditing is a management tool that works and reports to the management. Its basic role is to help

management in its activities so that such activities conform to laid down rules and procedures. Internal auditing is not done to expose management, but rather correct error and offer plausible suggestions of sanitising the system so that external auditors will not find any fault with management

While internal audit reports to management, external auditors report to Parliament. The scope of work for both internal and external auditors is basically the same. It is only their reporting systems that differ. Another form of external auditing is the work of commissions of enquiries set up to investigate one issue or another, the work of SFO, the BNI, the Police CID, human right groups, advocacy groups etc.

### **The Auditing Structures in Ghana**

In Ghana, both the Government machinery and the private sector have their respective auditing organs. There are several institutions that have specialties in the art of auditing and from time to time engage in contract auditing for their clients. Government on its part has the Ghana Audit Service and the Auditor General's Department dedicated to the tasks of auditing the operations of all MMDAs whose activities are funded from the consolidated fund and other state funding. Each of the 170 districts across the country has the representation of the Auditor-General's Department whose core function is to execute the mandate.

The Audit Service Act also provides that all MDAs should have internal audit units which will ensure that all activities are carried out within the frameworks set for proper accountability.

### **The Audit Process**

Before auditors come to audit any organisation, they will first and foremost notify the management of that organisation of their intended action. This notification will be supported by the legal mandates of the Service. If the audit is part of their routine work, they will indicate it with legal backings. If it is on a special request for whatever purpose, such as those conducted by special commissions and committees of enquiries, that also will be indicated, stating clearly their mandate and terms of reference (TOR). The notification will briefly mention the topical areas of interest to the audit team and the expected roles of management in making the process successful. A date for what is termed PRE-AUDIT CONFERENCE will be indicated in the letter of notification. This conference presents a platform for the Auditors to meet with the management of the organisation initially to brief them on the methodology of the audit process, the duration, inter alia.

### ***Areas of Concern to Auditors***

Documents and other areas relevant to auditors include:

- i. *Financial Transactions*: These may include a wide range of documents such as PVs, memos, receipts for payments, authorisations to commit funds, minutes of meetings as proof of

decisions taken that warrant expenditures and any other relevant document that may be deemed important.

- ii. *Payrolls and Nominal Rolls*: Auditors also need pay rolls and nominal rolls of organisations they are auditing. This is to ensure that emoluments are paid to and received by only those who are actually working.
- iii. *Procurement Documents*: This is a very crucial area for all Auditors. Its sensitivity stems from the fact that, the heaviest financial losses to the state are on record to have occurred in the procurement circles of many organisations and MDAs. In this regard, auditors look first of all for the existence of a functional procurement committee and evidence of minutes of their meetings. Procurement registers and register of suppliers are also investigated. Evaluations are therefore made of the entire procurement process from requests emanating from user units, decisions taken on those requests at meetings, invitation to potential and or pre-qualified suppliers ( tender invitations), Evaluation of tenders and the availability of the various structures, award and non-award notifications. Auditors also ensure that in all cases, institutions make judicious and profitable use of funds and stay within their budget limits.
- iv. *Physical Assets*: One other very important area of concern to auditors is physical assets. Their assessment will include; checking that the institution has an asset register, movable asset register and unserviceable assets register and whether they are being updated regularly to avoid loss of assets. They will also look out for coding or numbering systems used for identifying the assets and physically check assets against the registers.
- v. *Personal Interviews*: Auditors sometimes engage in interviewing people to arrive at solutions. In many cases, they may concentrate on members of management. This, however, is not the end of it. Sometimes, people outside management are also quizzed to authenticate claims that are considered to be incredible
- vi. *Stock taking*: As part of ensuring that book values correspond with actual stock on the ground, auditing encompasses stock taking. Auditors will, by this process, physically check available stock and reconcile it with values indicated in the books. When doing this, cognisance is taken of utilisation of stock vis – a – vis requisitions and issues
- vii. *Existence of Structures*: All auditing processes surely check for existence of proper structures that have the responsibility for ensuring prudence, transparency, accountability, probity and adherence to rules. Such structures are very important because their existence means there are people on whose head responsibilities of negligence, misappropriation, misapplication and all other issues relating to poor management will be laid. One such structure is the audit implementation committee.

## **On the Spot Queries**

During the course of auditing, management will be called upon to respond to certain issues that arise which auditors think can be dealt with on the spot. This on - the - spot queries and responses could be verbal or written. In whatever way, if the auditors are satisfied with the responses, then such issues will be laid to rest. However, if management's response still does not make any meaningful sense to the auditors, they will still hold on to the issues until their final meeting with management.

### **Preliminary Completion of Auditing**

The audit process is said to be complete if the team has completed its task in the following basic areas:

- Evaluations and preliminary investigations
- Financial transaction assessment
- Physical inspection of assets
- Stock taking
- Interviews

### **Exit Conference (Post-Audit Conference)**

When satisfied with its work, the audit team will meet with Management again to discuss its findings with management. This is the exit conference. At this forum, all observations are made known to the top hierarchy of the organisation. Weaknesses are pointed out and suggestions offered for the redress of some of the issues. Management is now given a 30-day period to address issues raised and to respond to the audit queries still on the table after completion of the process or those that were not dealt with by the on - the - spot process. When management's response is received, the audit team comes back to do what may be termed final verification. This is to contend itself that all what management said regarding corrections made and measures taken to address lapses and weaknesses are actually true and are in place.

After the verification visit, the audit team will finally issue out MANAGEMENT LETTER on the audit process, comprising their observations, queries, suggestions, management responses and actions as well as proposed sanctions. A copy of this letter will be sent to the relevant quarters for study and action, depending on which type of auditing is being done.

### **Corollaries of Auditing**

Generally, auditing has two effects. It can commend and indict. If auditing identifies good practices, measures and applications on the part of management, it can recommend its sustenance and reward for such team. These rewards may be scholarships for further studies, promotions, job enlargements, and award of citations and certificates.

The fear to be exposed and therefore sticking to doing the right thing is another good effect of auditing. People turn to follow procedures very strictly for fear of being indicted. By doing the right thing, the state ends up saving a lot of money and other resources. Development is the conspicuous legacy of good auditing system

On the other hand, auditing is a tool for exposing rot in society. Many people resort to spending state funds anyhow without taking note that, such funds are from the poor taxpayers. They enrich themselves dubiously at the expense of the masses. This they do by misappropriating and misapplying state funds and other resources. Auditing will expose all these rots, thereby allowing the legal system to clamp down on such people.

### **Conclusion**

Auditing should not be seen as witch - hunting. It should rather be encouraged and embraced. Instead of waiting for an audit team to come to you, why don't you invite them yourself for the assessment of your activities?

It is advisable to conduct some amount of audit yourself into your transactions to ensure that they follow laid - down rules and procedures. Turn yourself into an auditor and try to pre-empt the questions that they will ask and the queries that they will issue on your transactions. Try as much as possible to find solutions to all nagging issues prior to auditing. By so doing, you will always be on track and ensure that not all your activities generate any doubt to warrant question marks.