



HEALTH SECTOR FINANCIAL AUDITING

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Outline of Presentation

- Presentation Objectives
- Expectations from Presentation
- MOH Audit Mandate
- An Overview of Auditing



Outline Of Presentation-cont'd

- Types of Audit
- The Audit Process
- Audit Report
- Role of Management in the Audit Process



Outline Of Presentation-cont'd

- Responding to Audit Reports
- Appearance at Public Accounts Committee (PAC) of Parliament
- Common Findings/Observations in MOH/GHS Audit Reports and their Implications



Presentation Objectives

- To train participants to appreciate:
- the role of Auditing in achieving Health Sector goals and objectives
 - the audit methodology so as to co-operate with auditors in the performance of their work
 - the need to provide sufficient audit trail for every transaction to avoid audit queries



Expectations from Presentation

- Participants will fully understand:
 - Purpose of auditing
 - The differences between MOH/GHS Internal and external audits
 - The audit process
 - Methods used by auditors to obtain audit evidence
 - Nature and contents of Audit Reports
 - How to respond to Audit Reports



MoH/GHS Audit Mandate

- Article 186 (2&3) of 1992 Constitution
- Sec 52 of ACT 525 (Ghana Health Service & Teaching Hospital ACT)
- Sec.16 of ACT 658 (Internal Audit Agency ACT, 2003)



An Overview of Auditing

- Stewardship
- Stewardship Accounting
- Financial Statements
 - Income Statement
 - Balance Sheet
 - Cash Flow Statement
 - Notes to the Accounts
 - Directors'/Managers' Reports



An Overview of Auditing-cont'd

Why the Need for an Audit

- Can the Owners believe the Report is credible?
- Why the Report may not be credible?
- It may :
 - Contain errors
 - Not disclose fraud
 - Be inadvertently/deliberately misleading
 - Fail to disclose relevant information
 - Not conform to statutory provision (FAA, FAR & PA) and Standard Accounting Practice



An Overview of Auditing-cont'd

What is the solution?

- Solution – To appoint an independent person (Auditor) to report on the **truth** and **fairness** of the FS

An Overview of Auditing- cont'd



What then are the objectives of Auditing ?

- To produce Report by the Auditor of his opinion of the **truth** and **fairness** of the FS
- To detect errors and fraud
- To prevent errors and fraud
- To provide spin-off effects:
 - Accounting
 - System Development
 - Taxation, etc



An Overview of Auditing-cont'd

- **The Auditor's Report**
- Issued at the end of audit
- Addressed to the owners
(Parliament/Development Partners)
- Expresses opinion of the truth and fairness of the FS, and
- Other aspects of the FS



An Overview of Auditing-cont'd

The Auditor's Opinion

- Report does not say the FS do show true and fair view
- He can only say in his opinion the FS do show true and fair view
- Reader's/User's knowledge of Auditor-independent, honest, competent – to rely on Report



Types of Audit

- Nature:
 - Statutory Audit
 - Private Audit
 - Internal Audit
 - External audit
- Purpose:
 - Financial Audit
 - Control and Compliance Audit
 - Performance/Operational/Management Audit



Differences Between Internal and External Audits

AREA	INTERNAL AUDITOR	EXTERNAL AUDITOR
Appointment	Appointed by management	Appointed by owners (Parliament/partners)
Reporting	Reports to management	Reports to owners (Parliament/partners)
Responsibility (Audit Focus)	Quality assurance and consultancy services (Control & Compliance Audit)	Expression of Opinion on Financial Statement (Financial Audit)
Employee Status	Employee of organization (GHS)	Not employee of organization (GHS)



The Audit Process

- Planning
 - Preliminary Survey
 - Audit Plan
 - Audit Programme
 - Notification Letter
- Execution
 - Entrance Meeting
 - Fieldwork: evidence gathering, evaluation and analysis
 - Exit Meeting



The Audit Process-cont'd

- Reporting
 - Draft Report
 - Discuss Draft Report
 - Issue Final Report
 - Follow-up



Audit Plan

- Schedule of BMCs to be visited, selection guided by:
 - Result of the last audit of the BMC and length of time since that last audit
 - The size and complexity of the BMC's operations
 - Potential risk of financial loss
 - Major changes in operation, program, system or controls

- Audit staff to be engaged

- Timing of Audit

- Provision for special management request, concerns and expectations



Audit Evidence

- Gathering **sufficient reliable evidence** to form an opinion is the very essence of auditing
- What is evidence?
 - Matter produced to prove or disprove a point in issue



IA Standard on Audit Evidence

- **Sufficient competent evidential matter** is to be obtained through inspection, observation, inquiries and confirmations to afford a reasonable basis for an opinion regarding the financial statements under audit.
- **Evidential matter** is any **information that corroborates or refutes** an assertion. The evidential matter supporting the assertions in MOH's financial statements or BMCs financial returns are:
 - Related accounting records and documents
 - Corroborating information available to the auditors



Meaning of the Standard

- **Competence** of evidential matter refers to its **quality** or **reliability**.
 - **Source of Evidence:** evidence from independent sources outside of the MOH increases reliability
 - **Internal Control System:** strong internal control contributes substantially to the quality of accounting records and other evidence created within the BMC
 - **Mode of obtaining information:** the quality of evidence is enhanced when the auditors obtain information by firsthand observation, correspondence, or computation
 - **Timeliness** of information provided to the auditors



Meaning of the Standard

- **Sufficient** relates to the **quantity** of evidence the auditors should obtain
 - **Competence** of evidence available
 - **Materiality** of amount involved
 - **Audit Risk** (integrity of management)



Types of Audit Evidence

- **Documentary:** Consists of created information such as letters, memoranda contracts, accounting records, invoices, receipts, etc.
 - Documentary evidence created outside the MOH and transmitted directly to the auditors
 - Documentary evidence created outside the BMC but held by BMC
 - Documentary evidence created and held within the BMC
- **Physical:** Obtained by auditors direct inspection or observation of people, property or events
- **Testimonial/Third Party:** Obtained through inquiries, interviews or questionnaires
- **Analytical:** Includes computation, comparisons, separation of information into components



Techniques of Obtaining Audit Evidence

- The techniques of obtaining audit evidence include:
 - Compliance Testing
 - Substantive Testing



Focus of Compliance Testing

In obtaining audit evidence from compliance testing procedures, the auditor is concerned with the following assertions:

- **Existence:** control exists to check errors and fraud
- **Effectiveness:** the control is effective to prevent or ensure early detection of errors/fraud
- **Continuity:** the control has so operated throughout the period of intended reliance



Compliance testing procedures

- *Ascertainment of ICS*
- *Review / evaluation of ICS*
- Walk- through Test



Focus of Substantive Testing

In obtaining audit evidence from substantive procedures, the auditor is concerned with the following assertions

- **Existence:** an asset or a liability exists at a given date
- **Rights and Obligations:** an asset is a right and a liability an obligation of the BMC/GHS at a given date
- **Occurrence:** a transaction or event took place, which pertains to the BMC/GHS
- **Completeness:** there are no unrecorded assets, liabilities or transactions
- **Valuation:** an asset or liability is recorded at an appropriate carrying value
- **Measurement:** a transaction is recorded in the proper amount and revenue or expense is allocated to the proper period
- **Presentation and Disclosure:** an item is disclosed, classified and described in accordance with acceptable accounting policies and, with applicable legal requirements

Methods of Obtaining Audit Evidence



- **Interviewing/Inquiries:** Questions directed toward appropriate client (BMC) personnel
- **Observation:** is the process of viewing a client (BMC activity)
- **Examination:** reading or point-by-point review of a document or record
- **Re-performance (Computation):** the process of repeating a client (BMC) activity
- **Physical inspection:** to view physical evidence of an asset
- **Confirmation (third party representation):** is the process of obtaining evidence by written direct communication with the debtor, creditor, or other third party to the transaction
- **Reconciliations:** are used to establish agreement between two sets of independently maintained but related records
- **Analytical Review:** evaluation of financial information made by a study of expected relationships among financial and non-financial data.



Evaluation of Audit Evidence

The Auditor's judgement as to what is sufficient, competent audit evidence is influenced by the degree of risk of misstatement. This risk may be affected by:

- the nature of the item;
- the adequacy of internal control;
- the materiality of the item in relation to the financial information taken as a whole;
- the experience gained during previous audits;
- the result of auditing procedures, including fraud or error which may have been found; and
- the type of information available



Audit Reporting

- Final phase of the audit process
- Communication of audit results to stakeholders for
 - Information
 - Necessary corrective action by management
 - System strengthening
 - Rectification of errors
 - Recovery of lost assets
- Timeliness



Types of Audit Report

- Individual audit assignment reports
 - Revenue audit reports
 - Procurement audit reports
 - Reports of audit visits to BMC
- Periodic summary reports of major findings:
 - Monthly progress reports
 - Quarterly reports
 - Annual reports
- Opinion Report on Financial Statements



Reporting Levels

Level	Internal Audit	External Audit
Parliament	No	Yes
Office of the President	Yes	No
Management (Minister)	Yes	Yes
B.M.C. Heads	Yes	Yes



Reporting Process

- Spot Observations
- Debriefing
- Assignment Report/Management Letter
- Quarterly Report
- Annual Report

Responding to Audit Observations/Reports

Reporting Stage	Nature of Response Required	Responsibility
Spot Observations	<ul style="list-style-type: none"> -Detailed Explanations -Documentary Evidence -Produce document, records and/or assets 	Operating Staff
Debriefing	-Do-	Operating Mgt. (B.M.C. Mgt.)
Assignment Report	<ul style="list-style-type: none"> -Detailed Explanations -Documentary Evidence -Actions taken on Audit Rec. 	Head of B.M.C.
Quarterly/Annual Report	Actions taken on Audit Recommendations	Minister



Contents of Audit Reports

- **Condition:** the situation discovered or problem identified
- **Criteria/Standard:** what should have occurred or be occurring
- **Cause:** reasons why the situation occurred or the problem exists
- **Effect/Risk Implication:** the results or consequences of the problem
- **Recommendation:** how to resolve the problem



Contents of Audit Reports – cont'd

- **Management's comments:** action taken or to be taken by management to correct the problem



Contents of Audit Reports – cont'd

Types of Conditions

- Weaknesses in Accounting and ICS
- Non-adherence to Accounting and ICS
- Unsuitable accounting policies and practices
- Non-compliance with Accounting Standards or Legislation

Contents of Audit Reports – cont'd



Types of Criteria/Standard

- Written requirements such as contract agreements, laws, regulations, policies, procedures, directives, etc
- Good corporate practices
- Generally accepted accounting principles and standards
- Independent experts' opinions
- Common sense

Contents of Audit Reports – cont'd



Types of Causes

- Lack/inadequate training
- Lack/inadequate supervision
- Lack of communication
- Negligence or carelessness
- Obsolete laws, regulations, policies and procedures
- Dishonesty

Contents of Audit Reports – cont'd



- Lack of resources
- Unawareness of the problem or condition
- Non segregation of duties
- Management overrun
- Lack of planning

Contents of Audit Reports – cont'd



Types of Effects

- Asset loss
- Funds improperly spent
- Inaccurate returns/financial statements
- Inefficient use of resources
- Violation of law
- Loss of control over resources
- Ineffectiveness



Contents of Audit Reports – cont'd

Audit Recommendations

- The recommendation has to solve the problem. It must address the cause of the problem
- The recommendation has to be doable by the auditee
- The recommendation must be specific



Role of Management in the Audit Process

- **Pre-audit Stage:** Liaise with auditors for management's concerns and expectations to be addressed by the audit
- **On-site audit Stage:**
 - Meet Audit Team for Entrance Conference:
 - Discuss action taken by BMC since the previous audit
 - Explain/reiterate purpose of audit
 - Explain/reiterate audit procedures
 - Avail all staff members for the audit inspection



Role of Management in the Audit Process-cont'd

- Instruct all officers to surrender Books and Properties under their care/control for inspection as and when required
- Instruct all officers to respond to audit observations
- Hold exit conference with Audit Team for findings
- Offer explanations for errors/offences
- Agree audit recommendations plan with Audit Team



Role of Management in the Audit Process-cont'd

- **Post audit Stage:**

- Request for Draft Report before release
- Respond to Final Report within statutory period (30 days)



Responding to Audit Reports

- Set up Committee to study Report
- Tease out relevant sections for Concerned/Technical staff to respond
- Collate and comprehend responses from concerned/technical staff
- Committee to review draft responses

Responding to Audit Reports- cont'd



- Responses/explanations should be Relevant, Valid, Complete and Accurate
- Responses/explanations should be supported by relevant source documents
- Reply submitted to auditors within 30 days
- File copies of Report and Reply thereto



Appearance at PAC of Parliament

- Authority
- Responsibilities
 - Take oath
 - Submit written response with documentary evidence
 - Provide oral explanations to questions asked at PAC sitting
 - Responses should be factual, accurate and verifiable



Common Pitfalls and Their Implications

- Misappropriation/embezzlement of funds
- Misapplication of funds
- Non-acquittal of P.Vs
- Un-presented /missing P.vs
- Un-retired Programme/Project funds



Common Pitfalls and Their Implications-cont'd

- Mis-procurement
- Deficiencies in Store Records
- Undue retention of W/holding Tax
- Personnel/Payroll irregularities
- Refusal/failure to pay-back Staff Advances



Conclusion

- Auditors are not witch-hunters
- Rather, they are partners in good governance to achieve the health sector goals and objectives
- Co-operate with them for maximum result



End of Presentation

Thank you