



Promoting Good Governance in the Public Sector Through Audit Report Implementation Committee (ARIC) a case of Afigya Kwabre District Assembly



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Article History

Received: 10 March 2023

Revised: 13 May 2023

Accepted: 4 June 2023

Published: 10 June 2023

How to Cite

Richmond, Owusu-Mainu. and Jacob, Bannerman. (2023). Promoting Good Governance in the Public Sector Through Audit Report Implementation Committee (ARIC) a case of Afigya Kwabre District Assembly. *Sumerianz Journal of Economics and Finance*, 6(2): 37-43.

Abstract

The ascendancy of impropriety, embezzlement and fraud in most public institutions and good governance which has now assume a political jargon in Ghana inspired the study to be undertaken. The purposive method of sampling was used for selecting the staff, internal audit agency and Audit Service staffs respectively. The study uncovered the following facts in the activities of ARIC in MDAs/MMDAs. ARIC serves as a proper ingredient for management efficient performance, however the committee cannot be considered as fully independent and there are materials and financial constraints that makes it difficult for the committee to obtain its full benefits. The research revealed that AKDA has an ARIC and it is their responsibility to promote good governance. A call is made to MDAs/MMDAs to recognize the existence of the ARIC, be independent from management and should not delay to reply all audit reports.

Keywords: Audit; Good governance; MMDAs; Promote.

1. Introduction

An audit is an independent examination and expression of an opinion on the financial statements of an entity by an appointed auditor in pursuance of that appointment. It is a principle that the auditor be independent since otherwise the authority of his opinion seek to place reliance on it would be eroded. Good governance as a matter of facts which has become a political jargon in Ghana is important and should be regarded as such but it is not end in itself. Unfortunately, it has been misconception that, good governance has largely emphasized on the private sector, However, it is observed while good governance concepts and terminology may have originated in the private sector, its impact has deepened and broadened and is no longer reserved for the private sector but also applies to other areas of society – the education sector, the non – profit sector and of course the public sector.

Clearly, good governance has a role to play in the public sector as it does elsewhere. However, enough evidence exists about increasing convergence of both sectors in Ghana and in advanced nations. This combination of these sectors attitude has occurred as a direct result, the government service will be delivered efficiently and responsively as the citizen's demand.

Audit has provided assurance that funds release to District Assemblies is spent in the proper way and other relevant laws and that the reported use of funds present fair and accurate of the government financial position. In high of development, Article 30, subsection 1-5 of the Audit Service Act 2000, Act 584 mandates institutions, bodies or organizations which are mandated to auditing by the Auditor – General to establish audit report implementation committees (ARIC) to ad-head to issues into the audit report.

Upon this act the Afigya Kwabre district assembly has been urged to institute audit report implementation Committee and has been instituted as recommended. The audit team usually observes that recommendations made in their previous report are not usually implemented by the District Assembly. This is because; the Assembly's audit committee has not been meeting to discuss about the audit reports.

1.1. Statement of the Problem

Article 187(2) in the 1992 constitution of the republic of Ghana charges the Auditor – General with the responsibilities of auditing and reporting on the public accounts of Ghana and all central and local government administration which includes Afigya Kwabre District Assembly.

In performing their duties, Auditors noted that previous observation, findings and remedial recommendations made on financial records and statements of most of the District Assemblies are most times not complied with.

Audit team often return to the Assembly to perform their routine inspections, only to see undesirable features in the accounts such as unauthorized payment vouchers, non-acquittal of vouchers, items not routed through stores records, non-segregation of duties, Lack of competitive quotations, purchases not - supplied and short supply of items paid for and among others.

This financial state of affairs in the central and local government administration leads to leakage of public funds meant for projects and programmes into private pockets, denying the public the benefits of the projects. To eliminate wasteful expenditure and secure value for the tax payers money require more than a regularity audit, it is therefore important to establish that legal requirements to be duly observed in public financial affairs.

There is the further need for assessing operational efficiencies of government establishment by requesting in-house monitoring to put public officials at work. This research therefore, seeks to identify whether the establishment of ARIC has promoted good governance in the public sector- Afigya Kwabre District Assembly.

1.2. Objectives of the Study

- To examine the nature and awareness of ARIC in Afigya Kwabre District Assembly.
- To identify the objectives for the District Assembly instituting the A.R.I.C, the effectiveness of the A.R.I.C, Audit Committees responsibility.
- To find out the problems or constraints of the ARIC in AKDA.
- To identify, whether the establishment of ARIC has promoted good governance.

1.3. Research Questions

- How is the nature of the Audit report implementation committee (ARIC), taking Afigya kwabre District Assembly into perspective?
- Is there any efficiency and effectiveness in the performance of ARIC?
- Is there any problems which confront both management and the audit committee?
- Has there been any measureable improvement as per the introduction of ARIC?

1.4. Literature Review

In every society the public sector plays a major role. The country's (GDP) includes the public expenditure. In the capital market, the major employees and participants are the public sector entities. The chapter is however seeks to describe in detail, how ARIC has promoted good governance in the public sector.

The welfare of the citizens is the reason that drives the public sector but not for profit making. The various agencies under the public sector coordinate and lead roles that support and bring harmony to the people. The sector has the absolute regulations and other operatives in the economy to provide and promote the interest of the people

1.5. Governance in the Public Sector

Public sector governance, according to the Chartered Institute of Public Finance and Accountancy (CIPFA) 2004, comprises the arrangements implemented to ensure that, the intended benefits for stakeholders are clearly stated and attained. A Governing Body Perspective, ([International Federation of Accountants IFAC, 2001](#)) stated that Governance is concerned with structures, steps applied in decision making, accountability, control and behaviour at the top of organizations.

The resources used in every economy by governments are raised by donors, taxpayers, lenders for the supply of the various services and the less visible activities such as rules and regulations. For these resources, the organizations that are put in-charge are accountable to the government and the people who the services are rendered for. Good governance is strengthening and enhances resources efficiently in the public sector.

Corruption that has bedeviled the public sector could be eliminated or reduced with the practice of good governance which encourages proper accountability that leads to performance improvement. Effective management as strict inspection, which offers important structures for enhancing public sector performance and dealing with corruption. ([International Federation of Accountants \(IFAC\) The Role of Auditing in Public Sector Governance, Institute of Internal Auditors \(IIA\) 2012](#): Stated that Public sector governance entails the policies and procedures used to direct an organisation's activities to provide reasonable assurance that, objectives are met and that operations are carried out in an ethical and accountable manner.

1.6. Functions of Good Governance in the Public Sector

According to CIPFA, (2004), that the function of good governance is to permit organization to obtain its overall goals, achieves its stated goals for the citizens and operates in an effective, efficient and proper manner. The principles of good governance- transparency and accountability, fairness and equity, efficiency and effectiveness, respect for rule of law, high standards of ethical behavior represents the basis upon which to build open government (OECD, 2004).

The characteristics of good governance is to qualify entities to act in the interest of the public at all times. This requires upholding to the ethical principles of integrity, ethical behaviour, and rule of law, comprehensive stakeholder engagement and openness.

Furthermore, acting in the interest of the public, achieving good governance in the public sector also demands defining the objectives or goals as in terms of social and environmental benefits, sustainable economy and identifying the reactions to the achievement of intended outcome. Of Capacity building of every entity must include leadership and individuals within it. Performance and risk management through strong internal controls and proper public financial management and implementing best practices in reporting in transparency to deliver effective accountability.

1.7. Audit Report Implementation Committee (ARIC)

The control environment of an entity is mostly influenced by the effectiveness of its audit committee. Some stakeholders began to suggest instances of fraudulent financial reporting that could decreased by improving the effectiveness of audit committees (NCFRR 1987, POB, 1993). A cannon thread that runs through suggestions from these difference sources is that audit committees need to assume greater responsibility with respect to corporate governance by overseeing financial reporting and internal control matters Myers and Ziegenfuss (2006). Factors that suggest the effectiveness of the audit committee, its independent management, the experience and stature of its members, how it raises and pursues difficult questions with management and its interaction with the internal and External Auditors.

In Blue Ribbon Committee BRC (1999) on improving the effectiveness of corporate Audit Committee, more formalized approaches were taken to develop explicit recommendations that audit committees could address to improve their effectiveness Myers and Ziegenfuss (2006). The audit committee should be comprising of the firm and should not have other relationships that impair independence. Corporate governance codes in most countries typically require that internal Auditor report to the audit committee of their company's managements (Ahmad and Taylor, 2009). This empowers the committee to be effective at supervising the quality and accuracy of the organizations financial report and restricts management veto of controls and to manage fraud.

There must be an establishes mechanism instituted by the audit committee that will aid them for receiving, retaining and treating handling grievances about accounting internal controls, auditing issues and for the confidential, secret enquiries by employees of their concerns about doubtful accounting and auditing matters.

1.8. Responsibilities of the ARIC

Independent consultants and advisors should be established by the committee to have power to determines the necessary duties to be carried out. According to Myers and Ziegenfuss (2006), audit committees need to assume greater responsibility with respect to corporate governance by overseeing financial reporting and internal control matters.

Appropriate funding must be ready by the firm established by the committee for:

- The audit work and any related work of the company's independent auditor.
- Review or attest services and any other audit provided to the firm by auditors and
- Any engagement for advisory service by the committee. The Law requires of every reporting company that all audit services that has to be done must be sanctioned by the audit committee.

Additionally, any non-audit services that have to be provided by the auditor must be approved by the audit committee.

1.9. Challenges/Problems of ARIC in the Public Sector

The Audit Committee is an independent oversight committee reporting to the relevant governing body. The Committee must be independent from management, for prevention conflict of interest. However, this independence can be neutralized, particularly, where reporting lines are through operational lines which they expected to amend and report on. The independence of the Audit Committee may be weakened as a results of previous/current relationships of members and political standing, among other factors. The ability to function with independence has been a long- standing challenge to the members of the Audit Committee a challenge that has received renewed attention as a results of the rise of corporate governance (Ahmad and Taylor, 2009).

Another challenge face by the sector Audit committee is the employment of highly qualified and experience persons. Audit members must have adequate knowledge, skills and competences in different fields. The Audit Committee must together have in mind the integrated financial reporting, internal controls and external audit procedures, corporate laws, risk management, issues sustainability, information technology and good governance processes in the District Assemblies. Added to that, is the sector specific knowledge required about matters such as performance management and adherence with policies and regulations. The selection procedure of committee members that has always be influenced by politicians and remuneration as other matters to be considered.

Public sector bodies function within an exclusive regulatory framework, with a number of legislation and policies that must be complied with. The terms of reference of a public sector audit committees do not always clearly define the requirements of the audit committee, in relation to the entity's environment. The Audit committee again also faced with inadequate resources and quality data that should be provided by management. The Audit Committee is sometimes unable to evaluate situations, due to the absence of resources and quality information, which should be made available by management. The Audit Committee therefore cannot fulfill all its responsibilities. Public Sector Audit Committee Forum (PSACF).

1.10. Audit Report Implementation Committee Improving Good Governance

Shleifer and Vishny (1997) stated that corporate governance deals with the ways tax payers are assure of return in their investment. Corporate governance system is planned in such a way as to improve results as to detect and prevent fraud and also maximize the value of the company to its owners.

The principles or components of good governance which had been stated in the research question, how can the audit report implementation committees improve good governance through leadership, accountability, transparency in the public sector management system?

Audit committee plays a key role in corporate governance Sudlir Prasad Aryal, manager, KRD (2008) he says; effective corporate governance must include active and collaborative participation of all of its principal champions – the audit committee, board of directors, independent auditors, internal auditors and management. The oversight responsibility of the management is the Audit committee.

- The quality and integrity of the company's financial statements.
- The assessment of financial risk and risk management programs.
- The independence, qualification, engagement and performance of the company's externa auditor.
- The performance of the company's internal auditors and the integrity, adequacy of internal controls, quality and adequacy of disclosure to shareholders.

In addition, the committee shall regularly review the scope and results of audits performed by the company's independent accountants and the internal Auditors.

2. Methodology

A case study was employed for this study because the researcher was more interested in a deeper understanding of the problem, other than generalizing the findings across the population. For the purpose of obtaining the objectives of the study, quantitative and qualitative research design was used. Data was collected through both primary and secondary sources. A purposive method of sampling was used for selecting eighteen (18) staff including, audit committee members of the Assembly, internal audit agency staff and Audit Service staff respectively. In all, three questionnaires were designed, for the staff, audit committee members and for audit staff. Closed ended and open – ended types of questions were used. This was dictated by the nature of the research questions and objectives, which was aimed at getting information from specific respondents.

3. Results

This chapter covers the data presentation, and analysis on which the final summary, Conclusion and recommendation were made. These were based on the Research objectives, which among other things, the nature of the ARIC in the Assembly, the effectiveness of the Committee, ARIC responsibility to promote good governance, challenges or problems of the committee, the Independence of Committee and also the Responsibility to safeguard the District Assembly's assets.

The reasons of instituting ARIC in District Assemblies are to oversee that the head of the Management of the Assemblies pursues the matters raised in all audit reports and also to notify the auditors on how they have dealt with, audit observations and recommendation.

Fifteen respondents representing 83.33% had an idea about the audit report implementation committee and its objectives, Whiles three respondents representing 16.67% had no idea about existence of the ARIC and its objectives. The 8 responses from the audit staff and 7 responses from the assembly staff show clearly that the district assembly has instituted an audit committee and their goals were known. The information in the table above therefore shows clearly that, there is an Audit Report Implementation Committee in Afigya Kwabre District Assembly and its objectives are also known.

The purposes for establishing the ARIC and its effectiveness, the following shows the responses gathered as to whether the purposes are being met or not. This is related to the Research question: is there any effectiveness in the performance of ARIC?

One respondent representing 5.56% of the respondents stated that the ARIC is effective whiles seventeen (17) people representing 94.44% of the respondents said the ARIC is not effective. All the eight (8) audit staff representing 44.44% said ARIC is not effective, nine from the assembly staff representing 50% also agreed with the audit staff except one staff from the assembly objected to their view. The views of the 94.44% of the respondents were that, the committee members fail to meet regularly, most of the members are not technically competent, non-acceptance of committee's views by management, lack of logistics to support the committee and among others.

The work of the ARIC in the District Assembly is to support management of the District Assembly to implement matters raised in all audit reports and also address audit recommendations to ease management workload. The following shows the responses the researcher gathered.

Fourteen respondents representing 77.78% out of the eighteen agreed to the fact that it is incumbent on the audit committee to promote good governance, as against four representing 22.22% who had a different view that it is management that has to ensure good governance.

Recommendations made in an audit reports, it is the ARIC that has the responsibility for its implementation by the management of the organization and hence promoting good governance. Therefore, it is the primary duty of the assembly's audit committee to enable implementation of audit recommendations and take the necessary actions thereby promoting good governance.

Implementation of any recommendation made in all audit reports of MDA and MMDA's are entrusted in the hands of ARIC. The ARIC follows – up the Auditor – General's reports and the Public Accounts Committee's recommendations as well as recommendations made in internal audit reports. Article 187(2), in the 1992 Constitution of the Republic of Ghana.

The committee also provides management advisory services on the following:

- Management of Risk
- Internal Control
- Compliance with laws, regulations and ethical standards

It is also incumbent on the ARIC that institutional heads, body and organizations:

- Follow-up with the review and implement matters in all audit reports and again issues related to finance raised in the reports of Internal Audit Units in the institution, body or organization;
- Statement should be prepared annually to show the implementation status of the recommendations made in the audit report and furthermore, the Auditor General's Report that parliament has accepted and all other related directives made by parliament.

Action plans in the form of statement showing the necessary actions put in place or proposed to be implemented to avoid or reduce future occurrence of the misstated financial statement and operations of the organization or body and institutions the time period set for the actions to be completed. The referred statement mentioned shall be authenticated by the Minister in-charge and forward same to Parliament, The President's office, the Director-General of Internal Audit Agency (IAA) and the Auditor-General within six months after Parliamentary decisions on the Auditor General's reports.

With reference to internal audit, the ARIC shall:

- Review and advice on the strategy and plans for internal audit annually.
- Internal Audit Units performance being monitored as against annual audit plans and strategic plans.
- Follow-up the implementation of approved audit recommendation.

The audit report implementation committees in District assemblies are independent bodies that oversee the weak controls and institute necessary measures to strengthen the internal controls. The question here is, are the ARIC's treated as independent from the management? Supported by management by providing them with necessary resources? The table below shows the responses gathered.

From the Table, four respondents representing 22.22% said the ARIC are being supported by the district assembly's management, while as fourteen respondents representing 77.78% objected to the view of the 22.22% respondents, meaning there are a lot of problems in the ARIC.

The ARIC must be independent from management in order to avoid conflict of interest.

From table 5, only 3, respondents representing 16.67% of the population agreed the audit committee is independent from management but fifteen (15) respondents representing 83.33% of the population said is not independent from management.

Assets are the most valuation resources in the District Assembly, if effective measures are not implemented to safeguard them would drain the financial resources. The question now is to know whose responsibility to safeguard the assembly's assets in order to promote good governance. The following shows the responses gathered, whether it is the responsibility of the District coordinating director, District chief executive or the ARIC.

Fifteen respondents representing 83.33% said it is the responsibility of the District coordinating director to safeguard asset, 3 respondents representing 16.67% said it is the District chief executive whereas non respondent to the ARIC. It is therefore the responsibility of the DCD to safeguard the assembly asset because they are regarded by law as acting in a stewardship capacity concerning the property under their control and also keep proper assets register of the assets. The DCD should exercise his responsibility in this area by establishing an effective system of internal control. The nature and effectiveness of the internal controls will depend on the size of the district assembly.

4. Discussion

The research revealed that, there is an ARIC in Afigya Kwabre District Assembly and its objectives are also known, in accordance with Article 30, subsections 1-5 of Audit Service Act 2000, Act 584. The views of the respondents were that, the ARIC members fail to meet regularly, most of them are not technically competent, non-acceptance of committee's views by management, lack of logistics to support the ARIC and among others that has contributed to the non-effectiveness of the ARIC.

The issue as to whose responsibility to promote good governance is debatable to a lot of people, due to their ignorance of the District Assembly's Act 462 of 1993. Audit committees in District Assemblies have a major responsibility in promoting good governance, since its objectives are to identify the weaknesses outlined in audit reports, correct the anomalies outlined and then reply to the reports.

People at times, find it difficult to understand why irregularities still go on in the district assembly; while there is an ARIC to ensure that audit recommendations are complied. The reason is that, most members selected are not technically experts, political interference, lack of trained staff due to poor remuneration, inadequate logistics among others needs to be solved.

It was observed that, the ARIC is made up of some members from management of the district assembly which needs to be reviewed and involve independent people from management. Experts from different departments must be selected to form the ARIC, but not departmental heads whose form the management.

5. Conclusions

The research revealed that Afigya kwabre District Assembly has an audit report implementation committee in accordance with Article 30, subsections 1-5 of Audit Service Act 2000, Act 584 that mandates institutions, bodies or organizations which are subject to auditing by the Auditor-General. It was observed that the audit committee is to ensure that management pursues the implementation of matters raised in all audit reports.

Information gotten from the questionnaire administered shows that the audit committee in the District Assembly is not effective.

Evidence from the study has revealed that, the ARIC members fail to meet regularly; most of the members are not technically expert, lack of logistics to support the committee and among others that has contributed to the non-effectiveness of the committee.

The issue as to whose responsibility to promote good governance is debatable to a lot of people who are ignorant of the District Assemblies Act 462 of 1993 in Ghana.

The study further revealed that audit report implementation committees have major responsibility in promoting good governance since their objectives among others are to identify weaknesses outlined in audit reports, correct anomalies outlined through management and then reply's to all audit reports.

In view of the above, it makes sure all recommendations raised in all audit reports are complied with by management and if not takes the necessary action. In the nutshell, the primary aims of audit committees are to ensure implementation of all audit recommendations and hence promoting good governance.

Assets in every institution are the most valuable resource which needs proper attention and safeguarding and if not properly guarded would drain the financial resources of that institution.

The study therefore revealed that, it is the responsibility of the District Coordinating Director (DCD) to safeguard the District Assembly's assets because they are required by law as acting in a stewardship capacity concerning the properties under their control and also keep proper assets register for all assets under their jurisdiction. The DCD should exercise his responsibility in this area by establishing an effective system of control on the issuance of every asset. Before an asset is issued or can be used by a staff authorization, approval must be given by responsible officers. The nature and effectiveness of the internal controls will depend on the size of the assembly.

People at times do not understand why irregularities still pertains in District Assemblies. While there is an ARIC to ensure the implementation of all audit recommendations. The weakness observed in this study was that, there is frequent political interference, most member selected are not experts, inadequate logistics and among others which needs to be addressed.

The research indicated that the audit report implementation committees in District Assemblies is faced with many constraints as have been summed up in the conclusion so far made.

As a result, the following recommendations are also set up to draw Management and Audit committees of District Assemblies attention to how important the audit committees are and how effectively and efficiently they can help achieve organizational goals.

The Audit Committees should without undue delay reply all audit reports as stipulated by section 29 part III of the Audit Service Act 2000 (Act 584).

In order to promote good governance, Audit Committees should make sure that, reports are implemented, strengthened Internal Controls and invites the audit office for verification.

The ARIC members selected should be separated from management and then be competent or technically knowhow. They should be selected from key areas like finance, procurement, contract and planning department of the District Assembly, but should not be the heads of these departments. This is because the heads would not implement a recommendation that would deny or stop them from where fraudulent things are done.

The Audit Committee should set a publicity unit which will frequently educate all departments on how to work without deviating from regulations and internal controls of the district assembly as commended in all audit reports. Also enough resources and logistics must be put at the audit committee's disposal to enable them undergo their normal schedule. They should have access to transportation, computer(s) and also digital camera to inspect all projects at sites and help them report. The Audit Committee should timely write quarterly report on how effectively they are acting on audit recommendation.

In conclusion Management of District Assemblies should take the above recommendations seriously, sustain and uphold the ARIC's in their various Assemblies.

I suggest further studies would be made on this Research Topic.

On the whole, audit report implementation committee has been instituted by the District Assembly and its objective is to ensure that matters raised in audit reports are implemented. It observed through answered questionnaires that, the committee is not effective and needs to be equipped. The study further revealed that, the

ARIC has the responsibility of promoting good governance since it has to make sure all audit recommendations are complied with by management and if not takes action.

Promoting good governance also curtails the proper management of assets which revealed that it is the responsibility of the District Coordinating Director and which to large extent; he is complying with District Assemblies Act. It can be concluded that there are many challenges or problems to the ARIC pertaining to its non-effectiveness which among others are inadequate logistics, not meeting regularly etc.

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