

EVALUATING THE IMPACT OF AUDITING IN THE MANAGEMENT UNITS OF GHANA EDUCATION SERVICE – A CASE STUDY IN THE KASSENA NANKANA MUNICIPALITY IN THE UPPER EAST REGION OF GHANA

Mary Baagyere
Department of Modern
Languages, University of
Ghana
GHANA
marybaagyere@yahoo.com

Ruth Konogweh Ali
Finance Office, Faculty of
Mathematical Science, University for
Development Studies, Navrong
Campus, **GHANA**
ruthali78@yahoo.co.uk

Aloriwor Kutogichiga Elijah
Department of Computer Science,
Faculty of Mathematical Science,
University for Development
Studies, Navrong Campus
GHANA
kutogichiga@hotmail.com

ABSTRACT

Most economic activities in Ghana Education Service are largely conducted through public finance and in recent years, there have been issues of financial irregularities in the management units of the Ghana Education Service. Reports from the Public Account Committee indicate that there are financial challenges in our public institutions. In paper seeks to evaluate the impact auditing has on the financial statements of the basic schools' management units. In achieving the research aim, questionnaires were administered to thirty-five people based on a convenience sampling technique. The findings revealed the following: the main source of funding for the basic schools within the study area was Capitation Grants from the Ghana government. A greater portion of the funds available is spent on acquiring teaching and learning materials (TLMs). School levies are mostly paid in cash and some schools embezzled funds due to weak control systems. The most common financial irregularities in the basic school's management units include; financial errors, fraud, mismanagement of capitation grants and misappropriation of funds. And auditing is one major tool that is implemented by management of institutions to curb the situation of financial irregularities. The study therefore recommended that managements of various public institutions including the basic schools must account for the monies entrusted to their care by using the tool of auditing. Because, Audit and Assurance exercises will ensure some degree of accountability among managers of public institutions.

Keywords: Accountability, Imbursement, Audit, Assurance, Fraud.

INTRODUCTION

Auditing is the process of examining the financial statements of an institution in order to express an opinion as to whether or not the statements exhibit a true and fair view of the state of affairs of the institution. Auditing starts where Accounting stops, (Yin Luu, 2018). This explains that before any audit exercise commences, book keepers must close all financial statements for the period and prepare them for auditing as would be communicated and directed by the audit unit. This is evident that management units' heads always have some time to prepare for the regular audit exercises of GES.

Most management units' heads do not usually meet the requirements of both internal and external auditors of Ghana Education Service and hence tend to prepare little towards meeting the auditors of the service. This is a negative prevalent that does not ensure good and proper governance in the management units of Ghana Education Service and should be given

adequate attention. The main research problem in this work is to account for the reason behind GES management units' inability to meet the audit process requirements.

BACKGROUND TO THE STUDY

The financial environment in the management units of Ghana Education Service.

Most transactions of GES management unit are petty and do not involve much amounts of money to complete. Also, the management units of Ghana Education are not profit-making organizations and therefore do not keep books such as a comprehensive profit and loss account and detailed balance sheet. But for accountability and audit purposes, unit heads are obliged to keep proper books of accounts. Some major financial books kept by these institutions mainly for audit purposes include;

- i. **Cash Analysis Book:** The book has details of cash receipts and cash payments. Thus, the name cash analysis book.
- ii. **Cash Receipts Booklet:** It is in the form of a receipt booklet which the Unit Head uses to keep track of all cash receipts from all sources of funds within the Management Unit.
- iii. **Payments Voucher Forms:** Forms given to a staff of the management unit to record any transaction s/he makes that involves cash payments. Firstly, request forms are kept by the Unit Head and given to any staff of the unit who request for it to make any financial transaction relevant to achievement of the objectives of the unit. Secondly, the honour certificate form is kept by the management unit head and given to any staff to record a transaction of which no receipt leaflet was given as evidence.

Financial Prudence

Prudence is doing with other people's money that which you yourself would do with your own money. Managing the public resources just the way you would have efficiently and effectively managed your own resources. (Arvanitis, 2018)

This definition emphasizes on public servants treating public resources just as though they were their own resources. The definition draws its content on the notion that *people will always properly handle and manage what they themselves have toiled to acquire*.

The Government of the Republic of Ghana established the Internal Audit Agency "as an apex oversight body to co-ordinate, facilitate and provide quality assurance for Internal Audit activities within the public sector" (Internal Audit Agency Act, 2003). The management units of Ghana Education Service are not exceptions to this act. This is because public funds and resources are under their management.

Basic Schools' Sources of Funds

The main source of Ghana Basic Schools funding is the School Capitation Grants (SCG) which is usually disbursed based on the pupil's enrolment within the Management Unit. Thus, the higher the pupils' enrolment, the higher the amount of Capitation Grants. Other major examples of basic school's sources of funds include;

- i. Internally generated funds such as PTA levies.
- ii. Donations from concern NGOs such as Camfed (Campaign for Female Education), AfriKids and other NGOs.
- iii. Disposal of certain acquired assets and related others.
- iv. Philanthropic support from members of the communities in which schools are found.

Major Financial Misconducts in the Management Units

- **Misappropriation of Cash**

This kind of misconduct involves the victim showing more payments for the purchase of a product.

- **Misappropriation of Goods**

Here, records may be made for Teaching and Learning Materials (TLMs) and other assets not actually purchased. Or assets purchased may be kept for personal use but not for the benefit of the school.

Accountability

The Teachers Code of Conduct (July, 2008) outlined that a teacher shall make proper account of public funds in his possession or care to an appropriate authority. This is one of the effective ways of ensuring accountability in the Education Service of Ghana. Teachers are therefore supposed to be cautious of how they spend the public funds in the various management units. Proper accounting for public funds in their possession involves showing evidence for items purchased.

Kwame Akyeampong (2017) reported that accountability is the responsibility of those who govern to render an account to the governed, and also for the governed to demand accountability from their leadership through “mechanisms to control their leaders and ensure that the course of government conforms to the wishes of the people.” (Adjei 2001, pg 35). This explains why basic school heads render account to and how stakeholders can hold heads accountable for their actions and inactions.

Joyce Oppong Akyaa (2011) mentioned in her thesis that at the time of increased demand for accountability and transparency in governance, stakeholders of the public sector are demanding more effective and efficient use of public resources. Citizens’ confidence in government and public institutions is sharply affected by the degree to which resources are perceived to be managed.

Cash Irregularities

Auditor’s General Report (2016) revealed that cash irregularities were attributed to the under listed incidences among others;

- i. Unaccounted revenues
- ii. Unsupported payment vouchers
- iii. Funds to bank not credited
- iv. Un-presented payment vouchers
- v. Payment of public funds into personal bank accounts
- vi. Unaccounted funds
- vii. Misapplication of funds
- viii. Unauthorized use of school funds.

Financial Information Reliability

(Iddrisu, A. and Anang, F., 2010), reported that accuracy and reliability of financial data means that control measures should be put in place by management to ensure that transactions are recorded completely and accurately. Information from the internal auditors of GES during a face to face interview stated that in the book keeping systems of most basic schools, transactions are sometimes partially recorded which deviates from the dual aspect of recorded transactions. Partially recording financial transactions does not ensure reliability of the financial statements of the management units.

Financial Frauds and Misappropriation of Funds

Auditor's General Report (2006) disclosed School funds totalling One hundred and forty-three hundred Ghana Cedis (GH¢ 143.000) were misappropriated during the 2005 fiscal year. This misappropriation of funds is largely due to improper book keeping systems practiced at the basic school level, deliberate attempts by schools' heads and staffs to conceal material facts for dubious reasons, lack of appropriate supervisory boards and lack of actions taken against victims of financial misconducts in the service.

Budget

(Lucey, T., 2003), defined a budget as a quantitative statement for a defined period of time, which include; revenues, expenses, assets, liabilities and cash flows. The definition emphasizes that budget does not only depict revenue and expenses over a period of time but also include the liabilities to be incurred and cash flows over the period stated in the budget. A budget is a financial statement that specifies the expected revenue and expenses over a particular period of time. If the expected revenue is more than the expected expenses over the period, then there would be a surplus. Otherwise there would be a budget deficit. And if revenues are equal to expenses, then there would be an equal budget. The diagrams below depict equal/balanced, deficit and surplus budgets respectively.

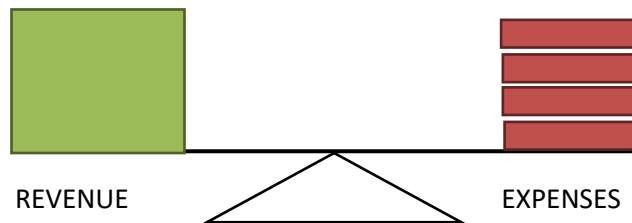


Figure 2.1 Shows a Diagrammatic Representation of an Equal/Balanced Budget

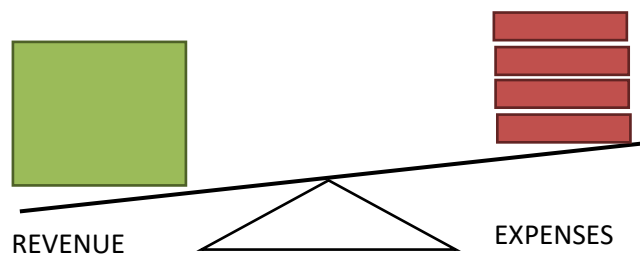


Figure 2.2 Shows a Diagrammatic Representation of a Deficit Budget

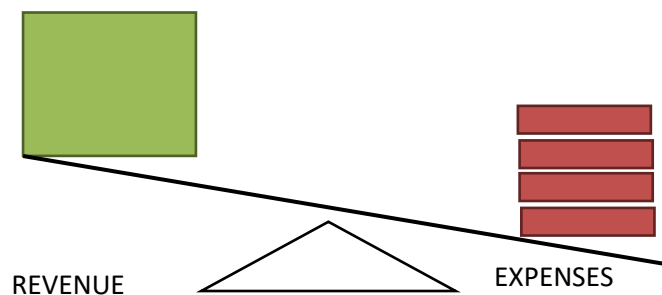


Figure 2.3 Shows a Diagrammatic Representation of a Surplus Budget

Errors and Frauds

Millichamp (2008) described an error as “unintentional mistakes.” Errors can take any form when processing transactions in the basic schools accounting system. Errors can be in the form clerical or mathematical or during the application of the accounting principles.

Joyce O. Ayaa (2011) in her thesis defined Fraud as the intentional misrepresentation of financial information. Fraud is usual meant to deceive and conceal the truth as well as material facts on how transactions were actually carried out.

METHODOLOGY

Data Collection

Both primary and secondary data were used for the study. Interviews and questionnaires are the methods used for the collection of primary data. However, the secondary data sources include; Auditor’s General Reports, GES auditors’ reports for Kassena-Nankana Municipal, basic schools accounts records, books, thesis and online databases. The collected data was then analysed and from the analysis, recommendations were made based on the findings. The target population for this study consists of both internal and external auditors of GES, Kassena-Nankana Municipal, the district accountant, the district finance officer and the basic schools Head Teachers in the Kassena-Nankana Municipal. A total of 35 respondents were selected for the study. Table 3 shows the breakdown of the various respondents used for the study.

Table 3: Breakdown of Sample Size for Respondents

TITLE OF RESPONDENTS	RESPONDENTS
The district accountant	1
Basic schools head teachers	30
The district finance officer	1
Internal auditors	2
External auditors	1
TOTAL	35

Source: Field Survey (May, 2018)

Design/Framework

This research study is exploratory in nature. The study focuses on using descriptive statistics to critically examine the audit processes that are practiced by Ghana Education Service auditors in verifying the basic schools’ books of accounts in the Kassena-Nankana Municipality.

Preparation of Budget

A budget is used to establish the basis for the internal audit work and also provides a system whereby the financial resources for basic schools are used in the most effective and efficient way. It is one of the major tools for managing the financial resources of the basic school’s management units and normally prepared by those concerned with financial matters in the basic schools. Basic Schools’ heads were asked who prepares the school’s budget. Table 4 depicts respondents’ responses about who is responsible for the preparation of the school.

Table 4: Responsibility for the School Budget Preparation

Responsible Officer	Freq.	Percentage (%)
Only Head teacher	2	6.67
All teachers	14	46.67
SMC/PTA executive	5	16.67
Head teacher and school committees' heads	9	30.00

Source: Field Survey (May, 2018)

Table 4 suggests that the Head Teacher, all the teaching staff and school committees' heads are involved in the preparation of the school budget with little inputs from the SMC/PTA executives. This phenomenon pertains to all basic schools since SMC/PTA leaders are not actively involved in the school's budget preparation.

Basic Schools' Main Sources of Funds

In attempt to find out from the basic schools' head teachers from where they get their cash inflows, the Table 3 depicts their responses.

Table 5: Sources of Funds Available to Basic Schools Management Units

Source	Freq.	Percentage (%)
Capitation grants from the government	30	100
Donations from old students	10	33.33
Funds from NGOs	5	16.67
School Levies	25	83.33

Source: field survey (May, 2018)

Considering Table 5, it is very clear that the most reliable source of funding basic school's expenses is the capitation grants from the government. This is evident to the fact that all the 30 respondents representing 100% stated that capitation grant is their major source of funding their activities. To some other schools, the capitation grants are the only source of funds available to them for the whole term.

However, the amount of capitation grants for a particular basic school largely depends on the school's enrolment, thus; the higher the enrolment of a basic school, the higher the amount of capitation grants. Also, the lower the enrolment of a basic school, the lower the amount of capitation grants for a term. (Source: field survey (May, 2018)).

Table 5 also depicts that some basic schools in the Municipality get major financial support through donations from old students, approved school levies and financial support from concerned NGOs such as Camfed, Getfund and others. This is evident to the fact that 10 respondents representing 33.33% indicated that donations are one major source of their funds. 5 respondents representing 16.67% indicated that NGOs supports are also a major source of basic school's funds. Finally, 25 respondents representing 83.33% indicated that school levies

are a major source of funds available for their schools. Respondents were asked to select more than one item from the list provided under the question.

Uses of School's Funds

Having identified the sources of basic schools' cash inflows, it is necessary to also find out how basic schools managements spend the funds available to them. Figure 1 illustrates responses on how schools' funds are spent. Respondents were allowed to tick more than one item in the list of items provided.

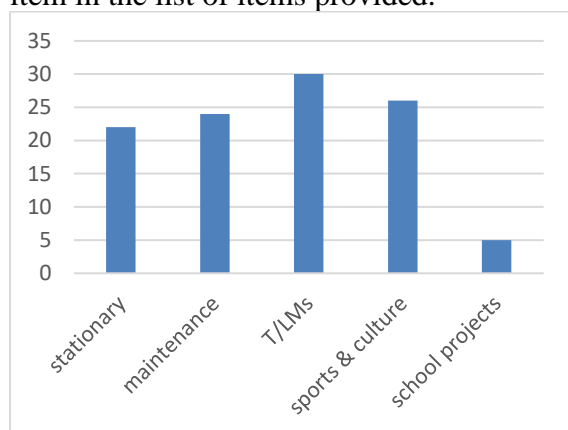


Figure 1: A Bar Graph Illustrating How Funds Are Disbursed in the Basic School

All the 30 responses indicated that Teaching and Learning Materials (T/LMs) take the higher proportion of their schools' funds. Also 26 respondents stated that part of their schools' funds go into purchases of sports and culture equipment. 24 responses indicated that part of the schools' funds go into maintenance and repairs. 22 responses showed that part of the school's funds is disbursed to stationary and daily expenses and 5 responses indicated that part of their schools' finances go into long term school projects.

Means through Which Basic Schools Management Units Collect School Levies

The table below indicates that approved school levies are mainly collected through cash. However, collecting approved school levies by cash can give room for cash imbursement. Cash imbursement has its negative consequences. Thus, the person who keeps the collected cash is a major question of concern. This is because the follow-up interviewed revealed that collected monies if not kept by the Head Teacher are often kept by one of the teachers usually identified by the title, School Treasurer. Monies kept by any staff could be stolen from him or her. Monies could also be used up without any permission to solve the victim's personal problems if things are tough and rough for him or her with the aim of refunding latter. A staff with such responsibility of keeping monies for the school can pass on without handing over the school's funds to the school. The said staff may be involved in some other pressing emergency issues which may delay the purpose for which monies are collected. The above are prevalent negative consequences of cash imbursement.

Table 6: Means through Which Basic Schools Management Units Collect School Levies

Means of Payment	Frequency	Percentage (%)
Cash	27	90
Bank/chegue	3	10

Source: Field survey (May, 2018)

Control Measures to Check Mismanagement and Embezzlement of Funds

According to the Auditor's general reports from 2005 to 2007, some schools have embezzled funds due to weak control systems. Our aim again was to find out whether or not control measures are kept in place by management of basic schools to check mismanagement and embezzlement of school funds by staff. Responses from respondents indicated that there were some internal control measures kept in place by schools' managements to check financial mismanagement and embezzlement of school financial resources. Some of those control measures include;

- i. Preparation of budget for grants and internally generated funds
- ii. Authorization of transactions
- iii. Recording of transactions
- iv. Following the school's budget plan
- v. Issuance of receipts

Occurrence of Errors and Frauds in the Financial Statements of Basic Schools

Auditing has two major purposes (Yin, 2017), Principles of Auditing:

- i. Identification, correction and prevention of errors in financial statements.
- ii. Avoiding mismanagement and financial frauds in the institutions which resources are entrusted to their care.

When respondents were asked whether or not financial errors occur in recording transactions into the financial statements of the school, Figure 2 illustrates their responses.



Figure 2: Responses on the Occurrence of Errors in Financial Statements

Also, when respondents were asked whether, issues of fraud and mismanagement of funds are identified during the audit process, Figure 3 illustrates their responses.



Figure 3: Occurrence of Frauds and Mismanagement in Account Books

How Often Errors and Frauds Are Identified during the Audit Exercises

It is realized from the responses that even though errors and frauds occur in their financial statements, auditors less often than not find issues of fraud in the financial statements of basic schools' management units. An interview with the audit unit also revealed as shown in Figure 4 that errors are more often identified and corrected in the financial statements but frauds rarely occur in the financial records during the audit exercises.

However, auditing does not only seek to identify and correct errors but also to prevent the occurrence of errors. Hence the audit department of the service should also channel some effort to help management of basic schools to avoid errors instead of merely correcting errors.

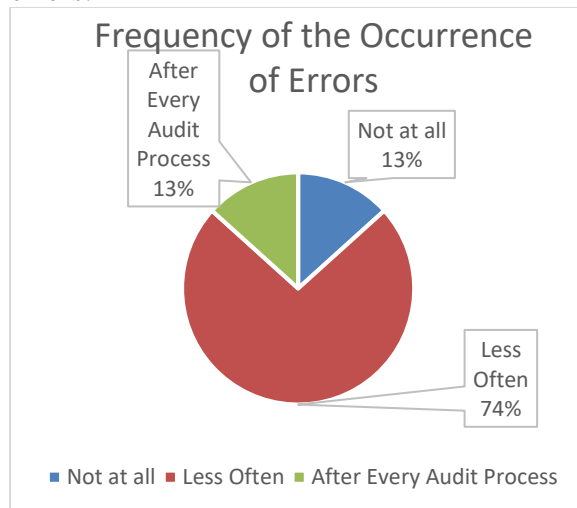


Figure 4: Frequency of the Existence of Errors and Frauds in the Financial Statements of Basic schools Management Units

Training on how to Practice Proper Book Keeping System.

Proper book keeping system is one major way by which an institution can keep track of its financial activities in order to ensure proper financial discipline. Irwin (1993)

Having realized that errors are very common in the financial statements of the basic schools' management units, our aim was to further enquire from heads of those institutions whether or not they receive in-service training on how practice proper book keeping system. Hence, when respondents were asked whether or not they receive regular training on how to practice proper book keeping system to prevent errors when preparing their financial statements, Figure 4.5 has pictorial details of their responses.

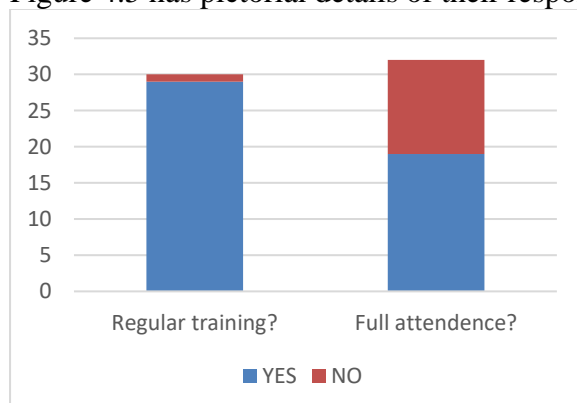


Figure 5: Depicts Responses on Whether Head Teachers Attend In-Service Training

From Figure 5, when respondents were asked whether they receive regular training on how to keep proper financial statements, 29 responses stated YES and only 1 response indicated NO. Also, when they were asked whether they attend to all trainings and seminars pertaining to proper book keeping, 19 responses stated YES and 11 responses indicated NO.

The above responses show that heads of various basic schools receive training and seminars on how to properly record transactions into the financial statements. The responses also revealed that there is always above average attendance in every training and seminar.

Qualified Verses Unqualified Auditor's Report

An auditor issues a qualified report to the employer (the Municipal director) if s/he encounters issues which do not adhere to Generally Accepted Accounting Principles. However, the auditor issues an unqualified report to the employer if the auditor did not identify any significant issues contrary to the Generally Accepted Accounting Principles. An unqualified report is the ultimate goal that regulators and top managing officials of GES seek to receive after every audit process in the municipality. Even though there are repeated errors in the account books of most management units, however errors are not any significant basis through which a report should be qualified because errors can be corrected during the audit process. Errors are not deliberate human mistakes. Hence the auditor's report for His employer is always unqualified.

The Role of I.T as an Enabler for the Effectiveness of Audit Exercises

The researcher finally wanted to enquire from the audit unit whether they use I.T incentives for the audit exercises in the municipality or not. Responses from the auditing staff were all "NO." The reason was that I.T tools for internal audit exercises are not yet readily available by the Auditors' General Department to Ghana Education Service. Also, no I.T tools for audit work are recommended by the Auditor General to GES. Audit staff during the interview was also expressing doubts as whether I.T has any tools for audit exercises or not. Hence audit unit in the district still appreciates and make effective use of the manual audit process in order to achieve their objectives.

Key Research Findings

The researcher has identified the following key findings pertaining to the topic after the analysis of the results.

- i. Fraudulent and embezzlement issues rarely occur in the financial statements of basic schools' management units.
- ii. Financial recording illiteracy rate is still above average among basic schools Head Teachers since errors are common in their financial statements.
- iii. The most reliable source of funding basic schools' activities is the capitation grants from the government of Ghana budget line.
- iv. T/LMs take the highest proportion among all the expenses that eat up the available sources of funds for basic schools.
- v. I.T incentives are not yet made available for GES auditors to use for effective and efficient audit process.

DISCUSSION OF RESEARCH FINDINGS AND RECOMMENDATIONS

Discussion of Research Findings

The research found out that basic schools' budgets are always prepared by all the teaching staff working under various management units with little inputs from the PTA and SMC. The budgets prepared must be approved by the finance unit of the District Education Office

before taken into action. For most basic schools in Kassena-Nankana Municipal, expenses are often greater than the available funds.

The research further shows a high sense of illiteracy rate in financial recording of transactions in most of the basic schools under the Kassena-Nankana Municipal. The district audit unit however is currently putting measures in place to attend to the situation.

The study further found out that the most reliable source of funds for basic schools in the Municipality is the capitation grants that come from the government's budget line. However, the amount of capitation grants given to each basic school in Ghana depends largely on the pupils' enrolment of the school. Other sources of financial resources for basic schools include; approved school levies, donations from old students and support from NGOs such as Camfed, Getfund, Afrikids. Etc.

It was also evidently clear from the findings of the study that basic schools' management units collect school levies through cash. Cash is the easiest way of collecting approved school levies but this can easily lead to cash imbursement at basic schools which has unbearable consequences to the administration of the schools.

The analysis of the data again indicated that errors exist in the financial statements of basic schools' books of accounts. Errors though are unintentional human mistakes but have grievous consequences to management of various basic schools. Even though errors are often found the financial statements but issues of fraud and embezzlement of funds rarely occur in their financial statements.

Financial, the research sought to find out that Information technology is not yet available for use in the auditing of financial statements of basic schools' books of accounts.

RECOMMENDATIONS

No organization or department that involves the use of public resources can do well without audit and assurance exercises. This assertion pertains to the basic schools' management units also. This is because the concept of auditing affects the assets, liabilities, expenses and revenues of an organization or any department that depends on government to finance their operations. One major objective of auditing is to provide for managers and directors of various institutions and departments respectively the need to observe financial regulations.

The researcher therefore deemed it a matter of necessity to make the following recommendations based on the findings:

- (i) Government should release capitation grants in time to basic schools in order to prevent increases in prices of items for both curricular and co-curricular activities.
- (ii) District Offices of Ghana Education Service should put measures in place to ensure that all basic schools heads fully participate in the in-service trainings pertaining to how to practice proper book keeping systems at the basic schools' management units. Regular in-service training can improve upon basic schools' heads knowledge, skills and abilities towards the practice of proper book keeping systems.
- (iii) Basic schools' management units should adapt proper means of collecting approved levies for the school. Cash is the easiest way of collecting school levies but it is not certainly the most effective and efficient way of collecting levies.

Basic schools can open network mobile money accounts with any convenient network service provider and use that account to collect the levies.

- (iv) district Education managers should put measures in place to ensure that basic schools staff desist from fraudulent activities and financial mismanagement of the public resources entrusted to their care.
- (v) The audit service for Ghana Education Service should learn to adapt the available Information Technology tools for audit and assurance to enhance easy and reliable audit work in the municipality. The advantages which I.T tools provide in many organizations and departments cannot be underestimated. I.T incentives can make the audit process very easy and less stressful for the auditors in the municipality as well as the whole nation.

CONCLUSION

The paper highlights the main sources of funds available to basic schools' management units to include include the following; capitation grants from the government of Ghana budget line, donations from old students and support from Non-Governmental Organizations. Among these sources, capitation grants from the government of Ghana budget line is the most reliable source of funding basic schools' activities.

The research also revealed that there were effective control measures put in place to prevent mismanagement of funds and financial frauds in the basic schools. Internal and external auditors from Ghana Education Office, Kassena-Nankana Municipal as well as Upper East Regional Education Office regularly visit basic schools to audit their financial statements periodically.

It was further discovered that Head Teachers are given the opportunity to participate in periodic in-service trainings pertaining to how to keep proper books of accounts. Attendance to such programs is always above average and hence some basic schools' heads still have little confidence in facing auditors during the audit process. Due to this assertion, more errors are often identified by the auditors during their regular visits to basic schools. Due this, basic school heads sometimes dodge the audit exercises in the district.

It was also ascertained that basic schools collect approved school levies through cash and collecting monies through cash can give room for cash imbursement.

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