Improving Financial Management in Sub-Saharan Africa

Numerous studies of accounting and auditing in Sub-Saharan Africa have concluded that sustained economic growth cannot be maintained without a sound accounting and auditing infrastructure and an appropriately trained accounting profession. Inadequate accounting and auditing have hindered the development of financial decision-making. This has led to the ineffective monitoring of fiscal development and imbalances in public finances.

This study, Quality Review Schemes for Auditors: Their Potential for Sub-Saharan Africa, concentrates on one aspect of financial management: the role of the external auditor. Poor accounting and weak internal audit make the role of external audit very important. Audit reports should provide an independent, expert opinion upon which management, shareholders, employees, and other interested parties can rely. Reports should indicate whether the accounts are reliable, and if not, they should identify issues not adequately represented in the financial statements. Where audit reports provide such warnings, they should do so in clear and unambiguous terms, so that the reader can understand the nature and the financial implications of the problems.

The study examines quality review schemes already operating. It describes their strengths and working methods, and assesses how they could be adapted for use in a scheme to review the quality of auditors in SSA. The main objectives of such a scheme would be to:

- Identify weaknesses in the audit process, which the auditor, or professional body could help rectify.
- Help ensure that the auditors are competent and independent.
- Help ensure the reliability of financial statements.
- Provide the basis for a model review scheme which could be adopted throughout SSA.
- Help national accounting bodies introduce their review schemes.
A long-term goal would be for SSA accounting bodies to administer their review schemes, on a national or regional basis. The ultimate developmental goal of the introduction of a review scheme however, would be the improvement of the capability of African auditors.

**Quality of the Auditing Profession in SSA**

The quality of the auditing profession in SSA varies. In the private sector, there is a sharp contrast between international or large indigenous auditing firms, and small firms of practitioners. In the public sector most of the auditing entities are understaffed, and do not have sufficiently skilled personnel to be able to carry out their duties adequately. In addition, auditing expertise is often restricted to undertaking compliance auditing. Few government auditors have the necessary skills to undertake value-for-money or computer audits, or to audit financial statements.

**What is a Quality Review?**

A quality review is an independent review of a firm's auditing practices. A typical review includes a visit to an auditing firm, where the reviewers look at how its quality control systems work, and test relevant records and files. On completion of the review, a report is sent to the firm, outlining if applicable, any areas where the firm needs to improve. It is not the intention of the review to challenge the auditor's judgment. The review looks at the work performed and checks whether the work recorded supports the audit opinion. A quality review is not a re-audit of completed audits. It is a check that the systems in place are adequate.

**The Benefits of a Quality Review**

Quality reviews provide an educational and supportive service that assists auditors maintain and improve their professional standards. Such reviews should result in increased user confidence in the reliability of financial statements, because the user can be assured that the auditors have adhered to professional standards. One advantage of the schemes in the countries that have already adopted them has been the educational benefit. It is a learning experience for the auditor.

The reviews have drawn attention to problems which the firms have been able to address. Review schemes can:

- Help ensure that the auditors are competent and independent.
- Help ensure the reliability of financial statements.
- Identify at an early stage potential problems with the auditors, which can be rectified.
- Make auditors aware of auditing standards.

**International Recognition of Quality Review Schemes**

The idea of review of auditors first arose in the 1960s and 1970s in the United States when there was widespread scrutiny of the auditing profession. In 1969, the American Institute of Certified Public Accountants recommended that a scheme be set up to provide auditing firms with an opportunity to have objective cross-reviews of their auditing work. Since then, Australia, Canada, Hong Kong, Ireland, New Zealand, and the United Kingdom, and more recently Malawi, South Africa and Zimbabwe have decided to introduce similar schemes. The International Federation of Accountants,
which has over 114 member bodies in 82 countries, encourages the introduction of reviews. Its Council feels that member bodies must show that they are able to self-regulate their members. The public must have reasonable assurance that auditors adhere to the highest standards in performing audit and related services.

**Pilot Quality Reviews**

The study also describes the results of two pilot quality reviews in Tanzania and Senegal. The pilots reviewed government and private auditors in Tanzania and Senegal. The pilot quality reviews involved: (a) an examination of the quality controls in place in each audit entity and firm; (b) a review of a sample of randomly selected audit files to check compliance with national accounting and auditing standards; and (c) a wrap-up meeting to discuss the review findings. The purpose of the pilots was to:

- Assess the reaction of government and private sector auditors to the idea of auditor reviews.
- Ascertain whether the review process that has been introduced in other countries is appropriate for use in SSA.
- Resolve any practical difficulties in the review process.

The reaction received was extremely favorable. All audit entities and firms reviewed welcomed the reviews. While most of those reviewed were in compliance with national accounting and auditing standards, examples were found where they had not been observed. These findings were discussed with those concerned and were followed up by a confidential written report. Apart from the auditors, who received comments on their work, major beneficiaries of the reviews were the national accounting bodies. The pilots highlighted gaps in the coverage of national accounting and auditing standards, and identified the areas in which the national body should be providing assistance to its members. From this information the national accounting bodies will be able to establish a program to improve the quality of their members.

**Lessons Learned**

The two pilot reviews showed that a quality review scheme could play an important role in improving the capacity of auditors in Africa. They demonstrated that the type of review scheme that has been introduced in other countries can be easily adapted by accounting bodies in Africa to review the quality of auditing firms or state audit corporations.

Where the model scheme was less appropriate was in reviewing the work of the government auditors. The pilot reviews highlighted the fact that government auditors are not subject to the same accounting and auditing standards as private sector auditors - their mandate as laid down by statute is different. Government auditors are rarely qualified auditors, and the national accounting body has little, if any, influence over their activities. The results of the pilots show that a quality review scheme established for private sector auditors is not necessarily appropriate for the public sector, and that national accounting bodies could have problems reviewing government auditors. A long-term development goal would be for government auditors to move closer to their private sector counterparts in terms of the quality of their training, and the standards adopted. In the meantime, however, a different set of review criteria will have to be established for government auditors.

The pilots show that it is important for the review process to be as transparent as possible. For it to be accepted, the auditors must be involved at all stages of the review process. In addition, there should
be open dialogue between the reviewers and the auditor. The auditors must view the reviewers as supportive, not destructive. Quality review schemes have been successful where the body has spent considerable time educating members about the benefits of their proposed scheme.

The one hurdle to the introduction of quality review schemes in SSA is funding. In most countries where review schemes have been introduced, the firms pay for the review, and the accounting bodies pay for the administration of the scheme. Many accounting bodies in SSA, however, do not have sufficient income to be able to hire full-time members of staff to undertake reviews, and administer the review process, and their members may not wish to cover the costs of the review. In addition, the reviews may reveal serious deficiencies which the accounting body may not have the capacity or resources to rectify. External assistance may be required to enable accounting bodies to introduce review schemes and provide the necessary support to help their members improve.

Conclusions

The introduction of quality review schemes has enhanced the reputation of auditors with the public and the business community. It has also demonstrated to governments that accounting bodies can be self-regulating, and can ensure that accounting and auditing standards are adhered to. In most countries in SSA, the national accounting bodies do not carry out a monitoring role. Without effective monitoring, it is highly unlikely that standards will be complied with. The introduction of a review scheme could assist accounting bodies improve the standards of their members. Introducing a review scheme however, is not easy. As mentioned previously, external assistance may be required to enable accounting bodies to introduce such schemes.

The pilots highlighted the many benefits to be obtained from quality reviews, and the crucial role they can play in helping improve the capability of both public and private sector auditors. Based upon the success of the pilot quality reviews in Tanzania and Senegal this study recommends the introduction of a model review scheme to assess the quality of auditors across SSA.