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**State Audit: An Instrument for
Accountability and Good
Economic Governance**

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STATE AUDIT: AN INSTRUMENT FOR ACCOUNTABILITY AND GOOD ECONOMIC GOVERNANCE*

1. Introduction

The people's right to know and even control how their taxes and other resources made available to the government are used is one of the cornerstones of democratic government. In a Presidential form of government it is parliament or the legislature which exercises this control on behalf of the people. The key inputs for parliament to the exercise of this control are the Budget Estimates, the Appropriations Act and the Audited Public Accounts. A legislature that has the time and resources to examine revenue and expenditure proposals can influence the direction and size of the budget. The Appropriations Act in principle provides the legally binding upper limits for expenditures which the Executive may not exceed. The audited public accounts are the essential weapon in dealing with the stewardship of public receipts and expenditures as outlined in the budget and authorized under the Appropriations Act. In this monograph we look at the role of the auditor general: what the office is expected to do, and how far it has performed its responsibilities, its constraints and challenges, and the lessons to be learnt if Ghana is to improve economic governance. The paper concludes with a commentary on the Auditor-General's report on the 2002 Consolidated Fund.

2. Government Activities and the Need for Accountability and Auditing

The primary role of government is to provide the legal framework within which all economic transactions occur. It is common to divide the activities of government into three broad categories: (a) the production of goods and services and the regulation of private producers; (b) the direct purchase of goods and services from firms and households such as the employment of civil servants to the services of street cleaners; and (c) the redistribution of income. To undertake its numerous activities, the government organizes itself into Ministries, Departments and Agencies who undertake these functions on behalf of the executive for the

* This issues paper emerged out of work done for the Parliamentary Public Accounts Committee in June 2005 and sponsored by the Canadian Parliamentary Centre, Accra Ghana. The project was coordinated by Dr. Joe Amoako-Tuffour, a Visiting Research Associate of CEPA and an Associate Professor of Economics at St. Francis Xavier University, Antigonish, Nova Scotia, Canada (jtuffour@stfx.ca).

benefit of the public at large. Some activities may be undertaken at the central level, some at the regional, district and local levels. Performing these activities require the flow of financial resources, mobilizing or spending public resources. Good economic governance entails, among other things, having in place the appropriate laws, rules and regulations to govern the management of public financial resources. Government therefore has a special responsibility to provide assurances to the public a clear picture of where public finances come from, how utilized and accounted for in an open and credible framework.

Why is state auditing an important vehicle of good economic governance? The UN Guidelines for effective Financial Management (2000) observed that (p. 48) auditing identifies and highlights instances where laws and regulations of public financial management have not been complied with, where financial systems need strengthening, and possibly, where value for money has not been achieved. In particular, internal audit provides the first lines of defence against misuse or mismanagement of public funds. External auditing by the office of the Auditor-General provides broader oversight functions over public sector accountability.

To be useful, audited reports must not only identify and highlight weaknesses, instances of fraud, misapplication of funds and negligence, but they also must contain recommendations on what actions to be taken by government officials to correct reported deficiencies. These recommendations then serve as the basis of follow-up by Parliament. If a nation's economic governance is to improve, good public financial management is essential. And good accounting and auditing systems are basic pre-requisites to that end.

It goes without saying that government accounting system and the work of the Auditor-General are of considerable importance, especially in a young democracy. The general public should be able to rely confidently on audited public accounts as the source of facts and figures, and as the basis to evaluate whether revenue and spending measures are being realized. Moreover, audited public accounts are not only a measure of past fiscal events, but are also important for telling us about the future. The results and trends identified in the

assets and liabilities of the Consolidated Fund can be interpreted as signaling changing government circumstances – what the government’s role and size may be in the future.¹

3. Government of Ghana Financial Mechanism

(3a) The Core of the Government Financial Mechanism

The Ministry of Finance and Economic Planning (MoFEP), the Controller and Accountant General Department (CAGD), the Internal Audit Agency, Auditor-General’s Department (AGD), and the Bank of Ghana constitute the financial organs of government. The MoFEP and the Bank of Ghana deal with fiscal and monetary policies, respectively and the flow of funds. The CAGD deals primarily with the physical handling of cash, which involves the operations and the rules and procedures for record-keeping and accounting. The internal and external audit deal with the physical flow of funds, the reporting and auditing with the aim of ensuring that revenues collected or resources allocated are spent in accordance with the legal mandate of each public institution. The accounting system provides government an institutional memory of all its financial transactions. Generally it is the Ministry of Finance and Economic Planning, the Controller and the Auditor-General that form the core of the government financial mechanism.

3b. The Legal Framework

The legal framework that governs the work of the Auditor-General and the auditing of public accounts in general are

- a) The financial provisions of Article 187 of the 1992 Constitution of the 4th Republic.
- b) Audit Service Act, 2000 (Act 584).
- c) The Financial Administration Act, 2003 (Act 564) and prior to that the Financial Administration Decree (1979) and the Financial Administration Regulations (1979).
- d) Internal Audit Agency Act, 2003 (Act 658).

¹ Rees, W. “Financial information and management” in D. Steward (ed.) *Handbook of Management Skills*, London: BCA 1992.
Henry, D. et. al. *Public Sector Accounting and Financial Control*, London: Chapman & Hall 1992.

3c. The Auditor-General

Article 187(2) of the 1992 Constitution enjoins the Auditor-General to audit and report on all the public accounts of Ghana and of all public offices, including the courts, the central and local government administration, of the Universities and public institutions of like nature, of any public corporation or other body or organization established by Act of Parliament. Article 187(5) of same sets the time frame of 6 months after the end of the immediately preceding financial year within which each of auditing responsibilities defined above should be completed and submitted to Parliament.

Sections 40 and 41 of the Financial Administration Act (FAA), 2003, clearly define the responsibilities of the heads of department and the Controller & Accountant-General in the preparation of monthly and annual statements of public accounts and the time limits by which these accounts are to be transmitted to the Auditor-General. Most fundamental, sections 40(1) and 41(1) stipulate what should be included in the public accounts by way of reporting.

Section 13 of the Audit Service Act, 2000 (Act 584) spells out the manner and the specific expectations of the auditing to be carried out by the Auditor-General on the public accounts referred to in Article 187(2) of the 1992 Constitution. To paraphrase, the Auditor-General is expected to ascertain whether in his opinion:

- a. The accounts have been properly kept.
- b. All public monies have been fully accounted for, and rules and procedures have been followed to ensure effective check on all aspects of revenue assessment, collection and proper allocation.
- c. Monies have been expended for purposes approved in the appropriations bill.
- d. Essential records are maintained and the rules and procedures applied; and
- e. Programmes and activities have been undertaken with due regard to economy, efficiency and effectiveness.

These are intended to prevent financial losses on account of corruption and weak management of public finances.

For completeness, Article 187(6) of same enjoins Parliament first to debate the report of the Auditor-General, and second, to appoint where necessary, in the public interest, a committee to

deal with any matters arising from its study of the report.

Parliament therefore requires the Auditor-General reports to perform its oversight functions over the executive use of public resources. Accurate and timely presented audited reports are necessary to ensure that the budget is implemented and, to the maximum practical extent, that financial resources are used in accordance with law, efficiently, effectively and rationally to the nation's benefit and that all is done with transparency and accountability to the legislature and the people at large.

Figuratively, the circle of accountability begins and ends with the legislature. A legislature that has the time, the material and adequate research capacity to examine the Budget estimates, ex-ante, can influence the direction and the size of the budget. When the Legislature has strong powers to follow up on the Auditor-General's recommendations, desirable changes in the financial practices of the Executive may follow. Ex-post budgetary powers of the Legislature are oriented to improving budgetary procedures, accountability and transparency. A legislature that has limited capacity and powers is clearly at a disadvantage to the executive. When Parliament is in breach of Article 187(6), the objective of the Constitution is not achieved and all the control mechanisms defined by the laws and regulations will fail to inform anybody, including the law-makers themselves.

3d. What has been the state of state auditing?

In the World Bank Completion Report on PUFMAR published in May 2004, the observation was made that auditing is still prepared in arrears, sanctions are not carried out, and audits of Ministries, Departments and Agencies (MDAs) are not systematically carried out. CEPA's own interviews in June 2004 with selected district assemblies revealed that although there have been improvements in accounting procedures and financial controls in recent years, auditing at the district level remained weak. District financial managers cited infrequent external auditing as a serious problem in financial management.

In a wider interview which covered a sample of civil servants and other stakeholders, respondents saw slightly more progress in external auditing than in internal auditing. Nearly 32%

of the respondents rated progress in external auditing as above average compared with 26% for internal auditing. Noteworthy, 38% of the respondents rated progress in internal auditing as poor and 74% rated it as at or below average.

Perceptions about external auditing were only marginally better. Nearly one-third (68%) of the respondents saw progress as at or below average. In short, effective auditing of public accounts remains weak. Many respondents, however, saw the passing of the Central Internal Audit Agency Act, 2003 (Act 658) - a central agency to coordinate, facilitate, monitor and supervise internal audit activities in the MDAs and all public institutions- as an important step in public expenditure management process. The Act removes a hitherto conflict of interest where internal auditing responsibilities resided in the office of the Controller & Accountant-General which was also responsible for disbursing funds to the spending units.

As far as the audited public accounts are concerned, the following observations are noteworthy. First, the Auditor-General Office has been less compliant with Article 187 (5) of the 1992 for both logistical, manpower and other institutional reasons. Second, the time lag between when a report is submitted to Parliament and when the document is laid before the House has ranged between 2 days to 6 months, with the delays decreasing in recent years. Third, the time lag between when a report is laid in the House and when the Public Accounts Committee (PAC) submits its report back to the House has ranged between 4 to 29 months. Finally, while the Standing Orders of the Parliament of Ghana mandates the PAC to report to the House at least twice a year (Standing Orders, Nov. 2000 para. 165(2)) the limited resource and technical capacity of the PAC frequently manifest in delays and inadequate examination of the Auditor-General reports submitted to the Committee.

Since 2002 when the Institute of Economic Affairs (IEA) held a series of workshops to spotlight the activities of the AD-G's office, the latter's performance has come under close scrutiny. The IEA workshops touched on a number of issues including lateness in submission of reports, the accuracy of reports, revelations of public misdemeanour as far as internal public records are concerned, the limited public action taken by Parliament, and the failure of Parliament to act even when there are revelations of gross misuse of public resources.

The 1993 Public Expenditure Review published by the then Ministry of Finance reported disturbingly that most “government ministries, departments and agencies saw their role as spenders not keepers of accounting data”. Unfortunately, then as now, MDAs see the work of the Auditor-General’s Office as intrusive and an interruption to their “normal” work. MDAs reportedly are reluctant to give the time and the needed cooperation to do the work required. But *transparency requires accessibility to information and data*. The need for transparency is anticipated by Article 187(3) of the Constitution which provides “access to all books, records, returns and other documents relating to or relevant to those accounts”. Equally fundamental is the provision in Sections 40 and 41 of the Financial Administration Act which stipulate that notes and records that relate to public finances are all part of public accounts. *Obstructing access and the lack of full disclosure of relevant financial records by MDAs not only constrain the ability of the AD-G to perform its tasks, but technically are also in breach of Article 187(3) of the Constitution*.

Clearly, heads of department and public institutions are by law required to maintain records, a responsibility that derives from the primary obligation which a head of department or institution has to manage his/her vote.² Part of this responsibility entails that departmental accounting, procedures and records follow the same code of departmental accounting instructions issued by the Controller and Accountant General in consultation with the Auditor-General [FAA, 42(2a)]. Where departmental accounting instructions are non-existent or where they exist but are not complied with, it is difficult to reconcile MDAs accounts with central government accounts. This difficulty encourages malfeasance and embezzlements and is detrimental to good economic governance.

In furtherance of transparency and accountability, Section 23 (1) of the Audit Service Act, 2000 (Act 584) requires that the Auditor-General “shall publish his reports on the public accounts of Ghana and the statement of foreign exchange receipts and payments of the Bank of Ghana as soon as the reports have been presented to the Speaker to be laid before Parliament”. To increase transparency and accountability to the general public at large Section 23(2) instructs the Auditor-General to distribute copies of the published reports to the Government Archivist, all public and University libraries in Ghana, the libraries of the Ghana Institute of Management and Public

² Pino Akatia, “The Management of Public Sector Financial Records: The Implications for Good Government”, March 1996
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Administration and the Management Development and Productivity Institute, and to any other institutions as approved by the Board. Clearly, the dissemination of the Auditor-General's report to the general public will depend on when the Public Accounts Committee is ready to submit the reports to be tabled in the House. Failure to submit the report to the House technically stifles the dissemination process and effectively smothers debate and any independent public scrutiny of the audited public accounts.

4. The Auditor-General (AG) Report on the 2002 Consolidated Fund

4a. The Consolidated Fund (CF)

Article 175 of the 1992 Constitution states that “The public funds of Ghana shall be the Consolidated Fund, the Contingency Fund and such other public funds as may be established by or under the authority of an Act of Parliament”. The Consolidated Fund (CF) reflects the totality of all public accounts. Although the information content of what is reported in the CF is highly aggregated, the CF nevertheless provides a picture of how government financial transactions may affect the overall macro-economy now and possibly in the future.

Issues concerning sources of receipts into, and withdrawals from, the Consolidated Funds, disbursing authority and related procedures of the management of the Fund are spelt out in Articles 176-182 of the 1992 Constitution. Scattered in the Bank of Ghana Act 2000, the Financial Administration Act 2003 (Act 654) (before that the Financial Administration Decree 1979) and the Audit Service Act, 2000 (Act 564) are detailed guidelines and processes to track and to control the flow of public funds.

4b. Auditor-General's Recommendations

In the recently released audit of the Consolidated Funds 2002, the Auditor-General made the following recommendations among others:

First, in relation to revenue, expenditures and overall budgetary process, the Auditor-General recommended that the Ministry of Finance and Economic Planning (MoFEP)

- a. Improve the process of budgeting to ensure that budget figures are accurate.
- b. Improve upon expenditure control to keep expenditures within budgetary provisions
- c. Intensify revenue collection efforts.

- d. Strive towards the achievement of budgetary targets in future.
- e. Avoid the situation whereby agreements are reached on the total budget resource envelope before negotiations on the wage bill are completed.

Second, MoFEP must also

- a. Ensure compliance by MDAs in providing necessary qualifying information to their financial statements to the Controller and Accountant General (CAG).
- b. Pursue the collection of outstanding loans for two reasons: first, to improve the cash flow position of the government and, second, to discourage the moral hazard of public officials who take loans and advances believing that they may not have to repay.
- c. Accelerate the implementation of the BPEMS.

The Auditor-General's validation of the financial statements and the financial position of the Government of Ghana as of December 2002 ended with two noteworthy qualifiers:

- a. There is a failure of MDAs to disclose key financial qualifying information required by legislation.
- b. There are financial irregularities totalling ₵143.68 billion.

4c. Implications of the findings

- a. The failure of the MDAs to disclose qualifying information about their contingent liabilities, their revenue due but uncollected, unpaid bills, donor resources that come directly to them, and their Internally Generated Funds (IGF's), is indicative of a recurrent and wider background of omissions contrary to the stipulation of the FAD and now the FAA.
- b. When the AG remarks that these omissions "may materially affect the significance of the Balance Sheet and Revenue and Expenditure figures" (par 17), he is pointing to a crisis in government accounting system and, more significantly perhaps, to the degree of non-compliance with the law and the regulations that govern the management of public accounts. The single word "failure" can mask a variety of critical issues in government accounting system.

- c. Some of these critical issues highlighted in the June 2003 issue of the Legislative Alert³ include
- i. Persistent disparity between revenue and expenditure targets and actuals
 - ii. Discrepancy in the expenditure figures in the books of MDAs and the CAGD
 - iii. Lack of supporting documents on revenue and expenditure
 - iv. Persistent arrears of transfers to statutory funds
 - v. Misuse of Department Revolving Fund
- d. The absence of qualifying information required to be provided by MDAs to the Controller to be included in financial statements has been a perennial problem. As with many other aspects of Ghana's public financial management, the problem is not with the absence of, or the lack of clarity of the law and the regulations. The problem clearly is with the absence of effective enforcement and compliance. Many civil servants are aware of the laws and the existence of sanctions. They are, however, secured in the knowledge that sanctions are ineffectively applied or not applied at all.
- e. Throughout the 1990s, it was apparent that Ghana's public expenditure management system had deteriorated and needed improvements. The Public Financial Management Reform Programme (PUFMARP) was financed by the World Bank with DFID, CIDA and the EU as co-financiers of different components of the project. PUFMARP was expected to improve all facets of public expending management, including improvements in government accounting system and auditing. A major component of the project was the Budget and Public Expenditure Management System (BPEMS). This component of PUFMARP was expected to ensure an orderly and smooth implementation of the budget, that all resource flows will be captured within a system of government accounting that shows the actual use of resources and serve as the basis of timely and effective auditing of government financial transactions. The Auditor-General's recommendation that the Ministry of Finance and Economic Planning accelerate implementation of the BPEMS recognizes that the slow roll out of the intended innovation in public finance management has become a major impediment to

³ "Promoting Accountability through State Audit: A Review of the Auditor General's Report on the Consolidated Fund 1994-1999," *Legislative Alert, Institute of Economic Affairs, June 2003.*

proper accounting in government system. The high expectations raised under PUFMARP in the early years might have led to a relaxation, at the operating level, of the existing manual expenditure control mechanisms. It would not be surprising if in anticipation of the BPEMS roll out, the old paper-based system of record keeping has not been updated, or in some cases not adhered to.

5. Performance of the Auditor-General's Office

The statutory obligation of the AG to report on all public accounts within 6 months of the immediately preceding year is by no means an easy task. To be effective – comprehensive, accurate and timely – the Auditor General requires well-trained and professional personnel and equipment.

It is interesting to note that the Constitution is very clear on the what the Auditor-general should report on and make recommendations, and on the time limit for the submission of the AG's report to Parliament. The Constitution defines the scope of work in broad language to cover "all public accounts". The implication here is that the volume of work and the range of work of the Auditor-General are variable. The scope of work grows in proportion to the number of public institutions to be audited and the range of work of those public institutions. For example, the creation of additional districts in 2004 from 110 to 128 means that for district assemblies auditing alone, the work of the AG's office increased by 16.4%. This has obvious resource implications if the AG's office is to comply with Article 187(5) of the Constitution. Indeed the same argument goes for the work of the Controller and Accountant General.

In his transmittal letter of September 6, 2002 accompanying the 2000 Audited Public Accounts, the Auditor-General stated: "I regret the late submission of this report which has been the result of ... and the diversion of Audit Service staff resources to undertake the special exercise that the Cabinet requested us to perform, such as the review of the operations of UN Peacekeeping Accounts of Ghana..." (p. v). Public institutions, small or large, place the same demands on government accounting system and auditing regardless of the size of their budget. There is no doubt that the government today is larger, far larger than it was in the 1960s even in its redistributive functions at the local levels. It is not clear to what extent the resource needs of the

Auditor-General commensurate with the growth of government are taken into consideration as the sphere of the Auditor-General increases in range and importance.

Finally and worryingly, matters are not helped when there is persistent non-compliance of Article 185(15) of the 1992 Constitution; namely, “the accounts of the office of the Auditor-General shall be audited and reported upon by an auditor appointed by Parliament”. This important aspect of public financial management unfortunately has only recently been done for the first time since 1993 with the auditing of the 1993-2002 Auditor-General accounts. Parliament should have appointed external auditors as far back as 1994. The effects of this negligence by Parliament have been considerable and raise a number of questions about the understanding of Parliament about the role of the AGD and the signalling effect of this negligence on the behaviour of heads of department and other spending units.

6. Conclusions

- Audited public accounts in general and the Consolidated Fund in particular are essential weapons in dealing with the stewardship of public receipts and expenditures. In Ghana, the main guidelines and the regulations emanating from the laws provide in precise and accurate detail how the machinery of public finance ought to operate as well as the role of the Auditor-General.

- A cursory inspection of the record of audits of public accounts paints a disturbing picture of persistent non-compliance with laws and regulations. The recent recommendations of the Auditor-General on 2002 public accounts revolve around recurring problems that the AG continues to point out year in, year out, dating back to reports covering the 1990s. There are concerns about
 - the completeness of financial data,
 - access to notes accompanying the public accounts submitted for auditing,
 - weak compliance with laws and regulations governing government accounting system,
 - weak follow-ups and enforcement of needed remedial actions.

In short, all is not well with the public accounts of Ghana and this has implications for good economic governance.

- There is no doubt that there is an improvement in the quality of AG reports over the years, and there is evidence of continuing attempts to clear the arrears in public accounts auditing. One would hope that the office of the AG will re-double its efforts so that future reports will be timely to enhance their public usefulness as the law intends them to be.
- Significantly, the past delays also reflect a number of fundamental problems worthy of immediate attention.
 - The staff constraints and the inadequate logistics of the AG's office.
 - How the office of the AG sees and exercises or is allowed to exercise its powers as defined by Article 187(3) of the 1992 Constitution and its enabling legislation.

These recurrent problems also reflect worryingly

- on the links between the Auditor-General and Controller and Accountant-General (CAG) departments and their ability to reconcile their public accounts for effective monitoring;
 - on the links between the CAG and the MDAs in their adherence to proper record keeping and reporting; and crucially
 - on whether Parliament takes the recommendations of the AG reports seriously and takes needed corrective actions. Arguably, these are at the root of many of the problems in public accounts.
- Parliament should strengthen its supervisory role in regard to the operations of the Consolidated Fund and ensure the implementation of the recommendations of the Auditor-General.
 - To do the job efficiently and thoroughly, Parliament should consider, as a matter of routine practice, to engage an independent body outside parliament to assess the outcomes and recommendations of the AG reports and make recommendations to inform the deliberations of the relevant committees. The cost of undertaking this measure would be less than the cost of the recurrent non-compliance and malfeasance in public accounts.