

PUBLIC EXPENDITURE MONITORING AND TRACKING – THE ROLE OF THE AUDITOR-GENERAL

**A PRESENTATION BY THE AUDITOR-
GENERAL, MR. EDWARD DUA
AGYEMAN, AT THE SEMINAR SERIES ON
MACROECONOMIC, MODELLING AND
PUBLIC ACCOUNTS MANAGEMENT
ORGANISED BY THE CENTRE FOR
POLICY ANALYSIS, AT THE MIKLIN
HOTEL, EAST LEGON ON
THURSDAY 23 MARCH 2006**

Introduction

- Public expenditure = Public moneys earmarked for / utilised by public offices
- Public expenditure = Government expenditure on itself/ society/economy as a whole

Introduction (cont'd)

- complaints from the general public:-
 - ◆ ineffective public expenditure patterns;
 - ◆ weak budget preparation and monitoring processes;
 - ◆ inefficient financial planning processes;
 - ◆ excessive corrupt practices; and
 - ◆ lack of transparency in the management of public.

Factors influencing public expenditure

Broadly, some of the factors influencing public expenditure include the following:

- ❖ Traditional functions of the state
- ❖ Increasing awareness of government responsibilities and public demands for government action
- ❖ Government investment activities as part of the system of governance
- ❖ Increasing population

- ❖ Growth of cities and urbanisation
- ❖ Debt servicing and repayment of loans
- ❖ Demands of vested interest groups
- ❖ Issue of high level corruption in government activities

Constitutional mandate of the Auditor-General

- public expenditure is required to be independently monitored and tracked by the Auditor-General
- Article 187(2) of the Constitution – Audit of all public accounts without any exception

- Submission of his report within six months after the end of the financial year to Parliament drawing attention to any irregularities noted and to any other matter, which in his opinion ought to be brought to the notice of Parliament.

Appropriation and tracking reports

- Executive annually lays before Parliament at least one month before the end of the year, estimates of revenue and expenditure
- Article 179 of the Constitution further requires that the estimates of the expenditure of all public offices and public corporations other than those set up as commercial ventures should be classified under programmes or activities and included in the Appropriation Bill, for consideration, debate and approval by the legislature.

- Financial Administration Act (FAA) 2003, Act 654 also regulates the financial management of the public sector
- Section 25 of the FAA
- Section 41 of the Act

Auditor-General's opinion

The Auditor-General is therefore expected to monitor public expenditure through auditing and to provide reports on such audits to Parliament for monitoring and tracking purposes. He is also required to ascertain in his opinion whether:

- Monies have been expended for the purposes for which they were appropriated and the expenditures have been made as authorised;

- ❖ Essential records are maintained and the rules and procedures applied are sufficient to safeguard and control public property; and
- ❖ Programmes and activities have been undertaken with due regard to economy, efficiency and effectiveness in relation to the resources utilised and results achieved

Scope of audit

- The Auditor-General performs financial audits and performance audits in the course of his monitoring and tracking process.

Financial audits

- Financial audits are risk-based and also answer the question: is the government spending the public purse properly, keeping proper accounts and records and presenting its financial information fairly?

These audits track whether:

- ❖ expenditures have been incurred in compliance with applicable laws, regulations, rules, using appropriations by Parliament as a basis;
- ❖ records have adequately been maintained to ensure accurate and complete recording of expenditures;

- ❖ goods and services for which expenditures have been incurred have been received; and
- ❖ internal control systems are adequate and effective in minimising the risks of fraud and errors and promoting the achievement of established objectives of institutions concerned.

What is Performance Audit?

- Performance audits examine the *economy, efficiency and effectiveness* with which audited bodies use their resources in carrying out their responsibilities. Effective performance audits can lead to better use of resources or doing more with the same or less resources

- Performance audit has recently been introduced into the Office of the Auditor-General under EU sponsorship.
- So far 10 performance audits have been carried out and reports issued to Parliament.

Power of surcharge and approval of systems

In the course of monitoring public expenditure, the Auditor-General has been given a unique power of surcharge by the Constitution and the Audit Service Act.

Article 187(7.b) of the Constitution requires that the Auditor-General may disallow any item of expenditure, which is contrary to law and surcharge:

- ❖ the amount of any expenditure disallowed upon the person responsible for incurring or authorising the expenditure; or

- ❖ any sum which has not been duly brought into account, upon the person by whom the sum ought to have been brought into account; or
- ❖ the amount of any loss or deficiency, upon any person by whose negligence or misconduct the loss or deficiency has been incurred

- programmes and activities have been undertaken with due regard to economy, efficiency and effectiveness in relation to the resources utilised and results achieved

- Any person against whom a surcharge has been raised by the Auditor-General has the power of appeal against the surcharge in the High Court.

- So far this power has not been invoked against public officials because they are given the opportunity to rectify financial lapses resulting in delayed accountability.

- However, because of the escalation in cash irregularities by 99.5% in 2004 involving un-presented payments vouchers and un-acquited payments, **the Auditor-General will invoke his powers of surcharge against responsible officers for such serious compliance violations in 2006.** This robust sanction will hasten and deepen accountability in the country.

- the Auditor-General to approve the form in which the public sector entities keep their accounts.

- According to section 11(6) of the Audit Service Act any head of a public institution or other body subject to auditing by the Auditor-General who fails to comply with these requirements is liable to be surcharged with the cost of any loss occasioned by defective or deficient internal controls.

New challenges

- areas of risk and abuse have been identified in the public expenditure system
 - ★ Includes in particular payroll and public procurement

- A special Payroll Unit has been set up within the Audit Service to handle payroll audit, including pensions.
- Within the last 30 months over ₱18 billion (US\$2,000,000) has been recovered in respect of unearned salaries and pensions while certification of salary arrears of MDAs and subvented organisations has yielded savings of over ₱118.7 billion

Procurement Audit Unit

- The introduction of the Public Procurement Act 2003, Act 653 has brought in its wake the need for specialised training and a specialist unit within the Audit Service to audit public sector procurement, a high cost centre to ensure economy, efficiency and transparency in service delivery.

- A Procurement Unit has been set up and will be adequately resourced to monitor risk management of procurement irregularities which surged by 17.3% from ₪9.0 billion to ₪10.5 billion in 2004.

Special Funds Audit Unit

- This Unit has just been established to conduct the audit of all special funds within the Consolidated Fund and present a separate report on these to Parliament. The funds targeted for this exercise include the Road Fund, HIPC Fund, GETFund, Non-Road user funds and the National Health Insurance Levy (NHIL) as well as tied donor grants and other trust funds.

Anti corruption response

- The Auditor-General is concerned about the perception of corruption in the country. In this regard, the ranking of Ghana as the 63rd in the corruption perception index for 2004 published by Transparency International, makes it imperative to share with you these preliminary interventions of the Auditor-General.

- Audit Service is putting in place an anti-corruption response that will include the following proactive steps:
- Improve risk management systems of Ministries, Departments and Agencies.

- ❖ Focus audit strategy more on areas and operations prone to fraud and corruption by developing effective high risk indicators for fraud.
- ❖ Establish an effective means for the public dissemination of audit reports and relevant information including, establishing good relationship with the media.

- ❖ Sharpen skills in fraud detection and forensic auditing and sensitising auditors on fraud awareness and the adoption of International Standard on Auditing (ISA 240) to provide reasonable assurance that the financial statements as a whole are free from material misstatement whether caused by fraud or error.

- ❖ Focus on fraud as an integral part of audit and encouraging Auditors to join the worldwide Association of Certified Fraud Examiners.

- ❖ Consider the feasibility of establishing fraud hotline to receive information on perceived irregularities.
- ❖ Intensify the exchange of experiences on the detection and control of fraud and corruption with other Supreme Audit Institutions

Reporting requirements

Under section 20(2) of the Audit Service Act, 2000 Act 584 the Auditor-General in his report to Parliament on the public accounts is required to draw attention to any case concerning public expenditure in which he has observed among other things that:

- i. an appropriation was exceeded or applied for a purpose or in a manner not authorised by law;

- ii. an expenditure was not authorised or properly vouched for or certified;
- iii. there has been a deficiency through fraud, default or mistake of any person;

- iv. applicable internal control and management measures are inefficient or ineffective; and
- v. resources have not been used with due regard to economy and effectiveness in relation to the results attained.

What reports reach Parliament and Ghanaians?

Apart from unspecified number of performance audit reports, the Auditor-General submits the following seven annual reports to Parliament.

- i. Auditor-General's report on the Consolidated Fund;
- ii. Auditor-General's report on Ministries, Departments and Agencies (MDAs);

- iii. Auditor-General's report on District Assemblies Common Fund;
- iv. Auditor-General's report on District Assemblies and Traditional Councils;
- V. Auditor-General's report on Pre-University Educational Institutions

- vi. Auditor-General's report on Public Boards and Corporations; and
- vii Auditor-General's report on half yearly reports on Bank of Ghana.

- As required by Section 28(3) of the Audit Service Act, the Auditor-General has two permanent staff attached to Public Accounts Committee to assist in its deliberations of the Auditor-General's reports

Tracking Public Accounts Committee and Auditor-General's recommendations

Under section 30 of the Audit Service Act, Audit Report Implementation Committees are required to be formed in all institution, body or organizations subject to auditing to:

- ❖ pursue the implementation of matters in all audit reports as well as the Auditor-General's reports endorsed by Parliament as well as financial matters raised in the reports of internal monitoring units; and

- ❖ annually prepare a statement showing the status of implementation of recommendations in all audit reports as well as the Auditor-General's reports which have been accepted by Parliament.

Conclusion

- Let me conclude by saying that whenever people get a choice between privacy and accountability, they tend to choose privacy for themselves and accountability for everyone else. But accountability and good governance are inextricably interrelated with each other. Take away accountability from good governance and you will be left with dictatorship and corruption.

For accountability to thrive there is the need to have effective monitoring and tracking of public expenditure by the Auditor-General. The success in this endeavour depends on strong political will to adequately resource the Auditor-General to be able to hire and maintain properly trained staff and professionals; acquire the needed equipment and other resources.

The growing interest of the public in the work of the Auditor-General has demonstrated the important contribution the Auditor-General makes in helping our nation spend wisely through expenditure surveillance. The Auditor-General provides assurances to the people of Ghana through Parliament that public money is spent properly and that there is accountability.



Thank you

23 March 2006

Audit Service