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PROMOTING ACCOUNTABILITY THROUGH STATE AUDIT: A REVIEW OF THE AUDITOR GENERAL'S REPORT ON THE CONSOLIDATED FUND 1994-1999

Introduction

Public auditing is one of the cornerstones of public sector financial accountability. Auditing involves the examination of public revenue and expenditure with the aim of ensuring that revenues collected are spent in accordance with the legal mandate of the agencies concerned. In Ghana, the public institution mandated by law to perform this task is the Auditor General's Department. State audits aim to ensure accountability in public finances in order to prevent a country from losing huge sums of moneys through corrupt practices of State officials and weak public finance management.

This paper aims to review the Auditor General's Reports on the Consolidated Fund (1994-1999) with the aim of assessing whether its recommendations have been adopted, and thus helped in improving financial accountability in public administration. One of the issues of special concern is the recurrence of problems in the various reports and the extent to which remedial actions were taken, on the basis of the Auditor General's recommendations.

The Consolidated Fund

The Consolidated Fund finances non-discretionary expenditures that the Government is under obligation to meet. It is only after Consolidated Fund payments have been made that revenue can be allocated to other expenditures. Issues concerning sources of receipts, custodial responsibility, disbursing authority, accounting and related procedures for the Fund, are enshrined in the 1992 Constitution article, clause? Additional legislation and decrees – including the Financial Administration Decree 1979 (FAD), the Financial Administration Regulation 1979 (FAR) and the Bank of Ghana Act (2002) - provide guidance on what constitutes the Consolidated Fund, and how it is to be administered.

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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." With respect to the Consolidated Fund, provisions made under Article 176(1) of the Constitution state that revenue to be paid into the Consolidated Fund include:

- All revenues or other monies raised or received for the purpose of, or on behalf of the Government.
- Any other money raised or received in trust for, or on behalf of the Government. Section 150 of the FAD 1979 requires that sources of money payable into the Consolidated Fund be classified by the Controller and Accountant-General's Department as Public Moneys and Trust Moneys
- Public Moneys: These comprise: revenue (current and recurrent), other receipts that are the product of borrowing, repayment of government loans and advances, sales of government securities, and sales of government equity investment.
- Trust Moneys: This comprises the Deposit Special and Trust Fund.

General Issues

The Auditor General is responsible for checking the accounts of the nation, underlining instances of fraud, misapplication of funds, bad financial practices, negligence, and incompetence, and suggesting ways of preventing their recurrence (Article 187 of the 1992 Constittution of Ghana). In reviewing the audited reports on the Consolidated Fund, emphasis is placed on problems which have become endemic in its operations.

A review of the Auditor General's Report for the period spanning 1994 to 1999 reveals some worrying trends which undermine the Government's stated objective of zero tolerance for corruption. Some of the critical issues worth highlighting include:

1) Persistent disparity between revenue and expenditure targets and actuals.
2) Discrepancy in expenditure figures as they appear in the books of Ministries Departments and Agencies (MDAs) and the Controller and Accountant General's Department.
3) Improper treatment of Divestiture receipts.
4) Lack of supporting documents on revenue and expenditure.
5) Persistent arrears in the District Assemblies Common Fund, and
6) Misuse of the Departmental Revolving Fund.

Year after year, the Auditor General's Report has consistently made recommendations that tackle the above issues. The fact that these problems are not addressed is serious cause for concern, and raises doubts as to whether the Auditor-General's Report can help in ensuring accountability, in the absence of powers of prosecution. What the Auditor-General can do is to identify instances of financial malpractice and malfeasance in the management of State funds, and suggest ways of dealing with these problems. It is then the responsibility of other bodies, Parliament for example, to ensure that the recommendations are implemented.

Revenue and Expenditure

According to the Auditor General's Reports from 1994 to 1999, there has never been a balance between revenue and expenditure targets and their actual levels. This is rather disturbing, in view of the fact that no attempt is made at identifying the causes of the variations. Below is a table presenting revenue and expenditures, estimates and actuals, and their variances (Table 1). Actual revenue figures have persistently fallen short of projected estimates. More worryingly, the variance has been increasing over time, from a shortfall of 5.7 percent in 1995 to 20.7 percent in 1999. Interestingly, most of the period saw actual expenditures falling short of their projected levels. Actual expenditure in 1998 and 1999 fell short of projected expenditure by 9.6 and 9.7 percent, respectively. Such large discrepancies reveal worrying trends in the forecasting ability of government.

Table 1. Trends in Budgeted Revenue and Expenditure (billions of cedis)

Year	1994	1995	1996	1997	1998	1999
Projected Revenue and Expenditure						
Revenue	1028.1	1496.8	2328.34	2944.3	3577.0	4192.0
Expenditure	997.3	1428.6	2076.6	2753.1	3594.4	4516.5
Actual Revenue and Expenditure						
Revenue	1093.6	1410.8	2004.0	2366.2	2891.5	3325.1
Expenditure	995.9	1438.0	2192.3	2663.6	3251.0	3745.5
Variance (budgeted vs. Actual)						
Revenue	65.5 6.4%	-86 -5.7%	-324.3 -13.9%	-578.1 -19.6%	-685.5 -19.2%	-866.9 -20.7%
Expenditure	(1.4) -0.14%	9.4 0.65%	115.7 5.6%	-89.5 -3.3%	-343.4 -9.6%	-771.0 -9.7%

Source: The Auditor General's Report on the Consolidated Fund. 1994-1999
Note: .Variance was calculated from the difference between the actual and the projected item.

A question worth asking is - What accounts for the persistent shortfalls in actual revenue? One explanation could be that revenue collection agencies are not effective in their assigned tasks. An alternative explanation is that certain individuals are taking advantage of loopholes in tax administration to embezzle tax revenue. It may also be the Government's poor capacity to forecast, or desire to publish high revenue forecasts in order to ensure low forecast budget deficits. Finding the specific cause of the persistent revenue shortfall is made more difficult by the failure of public institutions to publish a breakdown of revenue estimates, to allow sources of revenue to be identified and analyzed. According to the Auditor General's Report, failure to publish these estimates allows Ministries, Departments and Agencies (MDAs) to collect and use public money which otherwise should have been lodged into the Consolidated Fund and reported in the public accounts.

Section 12 of the FAD requires the Ministry of Finance to obtain revenue as well as expenditure estimates from all MDAs, for the purpose of preparing the Budget. However, Budget guidelines issued since 1994 have requested such information, suggesting that such guidelines are not being heeded. According to the 1999 Auditor General's Report, the continued failure by the Ministry of Finance to firmly establish a procedure for monitoring revenue estimates of MDAs and to include them in the budgetary proposals submitted to Parliament has contributed to:

1) Collection of lower fees, charges and fines by MDAs due to lack of yearly review of rates.
2) Non-disclosure of revenue collection by MDAs in public accounts
3) Money collected or received by MDAs and due for payment into the Consolidated Fund has been retained by some MDAs and used in meeting expenditure of MDAs without Parliamentary approval, in contravention of Article 178 of the Constitution.

Whilst considering the inefficiencies in revenue generations, we should not forget the issue of effective setting of targets. Targets must be set in such a way that variances are minimized.

Discrepancies in expenditure figures

A key requirement under Section 296 of the FAR is that the Controller and Accountant General's Department submits monthly schedules of receipts and payments for each of the MDAs, and that in turn each MDA, upon receipt of such monthly statements, must verify and clarify any outstanding items or issues and return them to the Controller and Accountant General Department (CAGD).

According to the Auditor-General's Report, submission and verification of MDA monthly statements have been consistently flouted by the various Treasuries servicing the MDAs. As a result, expenditures recorded by MDAs and shown in the accounts were not confirmed as required by Section 296 of the FAR. In 1998, for instance, twenty randomly-selected organizations were asked to submit their expenditure records for confirmation and verification. Only thirteen out of the 20 responded. From these responses, it was noted that the figures of five of the organizations exceeded the CAGD's figures by 2.3 billion cedis, while the figures for six organizations were lower than the CAGD's figures by 13.2 billion cedis. Only two organizations' figures agreed with the CAGD's. This trend was also observed in the subsequent years. Analysis of the figures from nine organizations in 1999 showed that their figures exceeded those of the Accountant General's Department by a total of 138.9 billion cedis, while figures for six organizations were less than those of the Controller and Accountant General by 13.5 billion cedis.

The persistent disparity in expenditure figures poses a great challenge to the fight against corruption. The extent of coordination between MDAs and the CAGD seems to be relatively weak, hence their inability to reconcile their accounts for effective monitoring. Redressing this problem requires proper monitoring and control of an existing effective regulatory framework. As in many other aspects of Ghana's public expenditure management, the problem does not lie in poor rules and regulations, but in the absence of effective monitoring and sanctions against non-compliance.

The District Assembly Common Fund

The law establishing the District Assemblies Common Fund (DACF) requires that not less than five percent of total revenue be set aside for Districts. A review of the above expenditure item reveals that there has been a persistent shortfall in the actual amount that is paid into the DACF. In 1997, for instance, an amount of 93.7 billion cedis was released as revenue to DACF, instead of the 102.3 billion cedis stated in the public accounts by the Controller and Accountant General, revealing a shortfall of 8.6 billion cedis. This trend has continued for the entire period under review. The act of keeping the District Assemblies in arrears is not appropriate, since the money is meant for development within the districts and also for poverty reduction programmes.

Absence of Supporting Schedules

An important issue that came out in the Auditor-General's reports is the absence of supporting schedules relating to broad-based revenue and expenditure statements. Details explaining the difference between the broad-based revenue and expenditure and narrow-based revenue and expenditure were not provided as stated in most of the reports. In the 1998 report for instance, Divestiture receipts of ¢8.8 billion cedis, as well as $3.2 million paid into two bank accounts at the Bank of Ghana, were not recorded in the narrow-based financial statement. Nor did the Controller and Accountant General provide an appropriate schedule in support of foreign-financed capital expenditure amounting to 761.5 billion cedis under the broad-based financial statement. These issues had already been highlighted in previous reports. The effect of the non-provision of the relevant details or schedules is that it becomes difficult to authenticate the figures shown in the revenue and expenditure statement as projected inflows and outflows for the period under review. While this system of budgeting was replaced in 1999 with the Medium Term Expenditure Framework (MTEF), it probably is the case that similar problems still persist.

Divestiture Receipts

Incorrect treatment of Divestiture receipts has also featured prominently in the Auditor's Report on the Consolidated Fund. According to Regulation 150(6) of the FAR, such receipts are to be treated as other receipts, instead of being added to total revenue. Divestiture receipts and non-performing assets recovery continued over the years to be treated under revenue instead of capital receipts. Divestiture proceeds of up to 229.8 billion cedis have been included in the total revenue figures of 1.1 trillion cedis appearing in the public accounts in 1994. In the absence of this amount, 1994 would have shown a deficit of up to 132.2 billion cedis, instead of a surplus of 97.6 billion cedis. In 1995 for instance, a total of 21.16 billion cedis received from these sources was erroneously included in revenue receipts. The same occurred in the following two years, where amounts of 180.2 billion cedis and 134.2 billion cedis were included in the Consolidated Fund.

The inclusion of Divestiture receipts under Revenue does not allow the country's revenue generation capacity from regular sources to be properly assessed and monitored. Since Divestiture proceeds are more or less windfalls, it is appropriate that these are classified under a separate category of revenue. Ideally, since Divesture receipts come from the sale of State Enterprises, it is important that such funds are used to finance investment expenditures. Their inclusion in the Consolidated Fund could lead to the use of such funds for the financing of recurrent expenditures, such as personnel emoluments.

Loans and advances

Another issue raised in the Auditor General's report is the discrepancy between loans given out of the Consolidated Fund and recorded in the public accounts on one hand and

Table 2

Year	1994	1995	1996	1997	1998	1999
Projected Revenue and Expenditure						
Revenue	1028.1	1496.8	2328.34	2944.3	3577.0	4192.0
Expenditure	997.3	1428.6	2076.6	2753.1	3594.4	4516.5
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Expenditure	(1.4) -0.14%	9.4 0.65%	115.7 5.6%	-89.5 -3.3%	-343.4 -9.6%	-771.0 -9.7%

Source: Report of the Auditor General Report on Public Accounts in Ghana: Consolidated Fund (1999).

confirmation of the loans received from the beneficiaries indicating the loan position. In 1994 for instance, such loans were understated by more than 70 billion cedis, while in 1998, an initial amount appearing in the Department Revolving Fund as 10 million cedis was translated as 5 million cedis in the Consolidated Fund. The absence of coordination between the Ministry of Finance and the CAGD contributed to this situation. The fact that MDAs generate other internally generated funds which are not always captured by the CAGD can give rise to such discrepancies. MDAs must thus be made to disclose their internally generated funds even if they do not pass through the Consolidated Fund.

The operations of the Departmental Revolving Vehicle Fund have also received considerable attention in the Auditor General's report. A review of this fund reveals that money advanced to certain public officials has never been paid back. One issue of special concern is the absence of a mechanism to ensure the quick recovery of money advanced to public officials. This has given public officials the chance to borrow large sums of money which they then fail to repay. This creates an inherent incentive for public officials to arbitrarily take loans and to reinvest them in Treasury bills if the interest on the loans is found to be lower than the Treasury bill rate.

An equally important issue is that the agreement and subsequent revision of loans given to various public boards and corporations have persistently not been submitted to the Controller and Accountant General and the Auditor General's offices. Given this situation, it is difficult to ascertain the terms and conditions given for the repayment of loans, and to allow for proper monitoring of the status of such loans. This gives room for officials to connive with loan beneficiaries in defaulting on repayment. For instance, loans amounting to 83.2 billion cedis granted to various organisations have remained dormant for the past 10 years, according to the reports. In 1999, loans granted out of the Consolidated Fund increased by 47.1 percent in nominal terms. An analysis of the figures reveals that in some cases there is an understatement, and in other cases an overstatement of the figures (Table 2).

Recommendations

What this paper has brought to light is the inability of the Auditor General's Report to bring about full accountability in the use of public funds. Auditing the Consolidated Fund reveals important lacunae that stubbornly refuse to go away. Genuine accountability in the use of the Consolidated Fund would require implementation of the Auditor General's recommendations.

After a careful review of the 1993 to 1999 editions of the Auditor General's Report, the following actions are recommended.

- An appropriate Legislative Instrument must be put in place which will ensure that MDAs adhere to the various regulations in the FAR. Public sector accounting standards must be enforced in all MDAs.

- A decentralised auditing system should be established, whereby periodic auditing is conducted in MDAs, to find out whether they are adhering to the rules with respect to the administration of funds. This system can run side by side with the yearly auditing by the Auditor-General. The cost of undertaking this measure would be less than the losses to the State through non-compliance and other malfeasance in the public sector. Against this background, a Special Court should be established to prosecute all those who are implicated in State fraud.

- There should be a training programme for the staff of MDAs and the CAGD, so that they can learn more about their respective operations. This will assist in reconciling accounts of these two bodies. The Ministry of Finance, in this case, could become the regulatory body.

- Parliament must intensify its supervisory role in the operations of the Consolidated Fund, and ensure that the Auditor General's recommendations are implemented.

- The quality of the Auditor General's Report is something that must also be given critical assessment. Reports become available after substantial delays, which affects their credibility and relevance. The Auditor-General's Department needs to ensure that it retains highly qualified staff.

- An independent body should be set up outside Parliament, with the sole responsibility of investigating the outcomes and recommendations of the Auditor-General's Report and suggesting ways of implementing them. This body should be insulated from all forms of control and interference from the Executive, to ensure objectivity.

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