

PARLIAMENT OF GHANA LIBRARY

**IN THE FIRST SESSION OF THE FOURTH
PARLIAMENT OF THE FOURTH
REPUBLIC OF GHANA**

**REPORT OF THE
PUBLIC ACCOUNTS COMMITTEE**

ON THE

**REPORT OF THE AUDITOR-GENERAL ON THE
PUBLIC ACCOUNTS OF GHANA
(CONSOLIDATED FUND) FOR THE YEARS
ENDED 31ST DECEMBER 2003 AND 2004**

July 2006

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INTRODUCTION

1. The Reports of the Auditor-General on the Public Accounts of Ghana (Consolidated Fund) for the years ended 31st December 2003 and 2004 were laid before Parliament on 7th July 2005 and 17th February 2006 respectively, pursuant to Article 187 (5) of the Constitution of the Republic of Ghana, 1992.

2. Article 187(2) mandates the Auditor-General to audit and report on the public accounts of Ghana and of all public offices. The Auditor-General is further mandated to draw the attention of Parliament to any irregularities in the accounts audited and to any matter which in his opinion ought to be brought to the notice of Parliament (Article 187(5)).

3. The two Reports of the Auditor-General were accordingly referred to the Public Accounts Committee by Mr. Speaker for consideration and report in accordance with Order 165(2) of the Standing Orders of the House.

REFERENCE

4. The deliberations of the Committee were guided by the following legal instruments:

- i. The Constitution of the Republic of Ghana, 1992.
- ii. The Standing Orders of the Parliament of Ghana.
- iii. The Financial Administration Act, 2003 (Act 654).
- iv. The Audit Service Act 2000 (Act 584).
- v. The Loans Act, 1970 (Act 335).
- vi. The Financial Administration Regulation, 2004 (L.I. 1302).

SITTINGS OF THE COMMITTEE

5. The Committee held three Sittings to deliberate on the two Reports of the Auditor-General. In line with its practice and procedure, the Committee took

evidence (oral and written) from officials of Ministries, Departments and Other Agencies (MDAs) that were the subject of comment by the Auditor-General. The MDAs were as follows:

- i. Ministry of Finance and Economic Planning (MOFEP)
- ii. Controller and Accountant-General's Department (CAGD)
- iii. Bank of Ghana (BoG)

6. The Committee also solicited and received the opinion of the Institute of Chartered Accountants (ICA), Ghana, on the final accounts of Government as reported on by the Auditor-General.

ACKNOWLEDGEMENT

7. Your Committee wishes to acknowledge the contribution of all officials who responded to the Committee's invitation. The Committee is particularly grateful to the Deputy Minister of Finance and Economic Planning, Hon. G.Y. Gyan-Baffour (Prof.) for his valuable inputs, the ICA for their professional opinion on the final accounts, the Deputy Controller and Accountant-General and all officials who attended upon the Committee.

SCOPE OF REPORT

8. The two Reports of the Auditor-General were discussed simultaneously as the issues seem common to the two Reports. The Committee is accordingly issuing one report to the House on the two Reports of the Auditor-General.

9. The structure of the Committee's Report is in three parts. The first part is an executive summary whereas the second part incorporates the detailed findings of the Auditor-General and observations by the Committee. The balance sheet position for 2003 and 2004 and our conclusions are captured in the third part.

PART I
EXECUTIVE SUMMARY

Budget Out-Turn

10. Year 2003 recorded an out-turn deficit of €33.3billion whilst year 2004 realized a surplus of €1,817.7billion.

Revenue Performance

11. Total revenue realized in 2003 was €15,606.5billion compared with an estimated figure of €17,520.1billion, a shortfall of €1,913.6billion or 11%. Revenue performance for the subsequent year 2004, however, showed significant improvement. A figure of €21,365.3billion was budgeted for whereas an amount of €23,773.6billion was realized, a favourable variance of €2,408.3billion or 11.3%.

Expenditure Performance

12. Actual Government expenditure for 2003 was €15,639.8billion as against a budgeted expenditure of €17,054.9billion, resulting in a saving of €1,415.1billion or 8.3%. On the other hand, expenditure for 2004 was €21,955.9billion whereas the budgeted figure was €22,976.8billion, a reduction of €1,020.9bn or 4.4%.

Grants

13. Project grants totaling €1,425.1billion received from donors in 2003 were not included in the financial statements. Similarly, in 2004, a total of €1,453.0billion, SDR42.7m and BUA566,696 of project grants were not disclosed in the financial statements of that year. Programme grants on the other hand for 2004 was €3,430.9 billion out of which €3.087.5 billion was disbursed.

14. The Committee however noted that part of the Multi Donor Budget Support (MDBS) contribution of the Dutch and Danish Governments were not captured in the Report of the Auditor-General. This was accordingly adjusted bringing total programme grants to €1,784,129.78billion.

Inadequate Disclosures

15. In 2003, the CAG was unable to attach qualifying information on the contingent liabilities, uncollected revenue, undischarged commitments and unpaid bills to the financial statements.

BALANCE SHEETS

Assets

Cash

16. An overdrawn Cash balance of €6,005.5billion was recorded in 2003 as against an overdrawn cash balance of €6,201.7billion recorded in 2002, a decrease of €196.2billion. An overdrawn position of €5,465.7billion was equally recorded in 2004, a reduction of 539.8billion or 8.9% compared with the 2003 figure of €6,005.5billion.

Advances

17. Outstanding advances in 2003 amounted to €65.4billion as against €34.1billion noted in year 2002, an increase of €31.3billion or 91.8%. The balances on advances in 2004 on the other hand stood at €71.8billion, an increase of €6.3billion or 9.6%. The 2004 figure includes €39.3billion which was termed "Other Departmental Advances". These were explained to be advances to MDAs and their staff, which had not been accounted for over the years.

Loans Granted by Government

18. The loan balance for 2003 was €9,361.2billion as against the 2002 figure of €9,366.8billion, a decrease of €5.6billion or 0.06%. The reduction was as a result of a difference between recoveries of €32.5billion made in 2003 and an exchange gain of €26.9billion. The loan balance for 2004 was €6,695.3billion, a decrease of €2,665.9billion or 28.5%. The decrease resulted from loan adjustments to Volta River Authority (VRA), Ghana Water Company Limited (GWCL) and Electricity Company of Ghana (ECG) to the tune of €2,531.0billion and an exchange gain of €172.2billion. In addition to the above was a total repayment of €16.0billion.

19. The Committee noted that some of these loans are irrecoverable and therefore urges MOFEP and CAGD to investigate the loan schedule of the Consolidated Fund, and submit to Parliament, a list of loans that in their opinion ought to be written-off for necessary action.

Investments

20. Government investments in public boards, corporations, International agencies and other bodies increased from ₦304.3billion in 2002 to ₦308.0billion in 2003, an increase of ₦3.7billion or 1.2%. Similarly, Government equity investments increased by ₦40.9billion or 13.3% to ₦348.9billion in 2004.

General Revenue Balance

21. The General Revenue Balance increased by ₦9,244.1billion or 18.0% from ₦51,387.2billion in 2002 to ₦60,631.3billion in 2003. This was further increased by ₦15,514.3billion or 25.5% to ₦76,145.6billion in 2004.

Liabilities

22. The Consolidated Fund liabilities for 2003 was ₦64,360.6billion, an increase of ₦9,469.9billion or 17.3% over the previous year's figure of ₦54,890.7billion whilst the 2004 figure was ₦77,796.0billion, an increase of ₦13,435.4billion or 20.8%.

Domestic Debt

23. The total domestic debt for 2003 was ₦12,326.9billion compared with the previous year's amount of ₦12,509.8billion, an increase of ₦182.9billion or 1.5% whereas the domestic debt component for 2004 rose by ₦4,570.3billion or 37% to ₦16,897.2billion in 2004. In year 2004, Government issued securities totaling ₦27,338.6billion and redeemed ₦24,032.4bn without Parliament's approval.

24. The Ministry argued that it would be practically impossible to submit the terms and conditions of these securities to Parliament since the said terms and

conditions change almost everyday. They further argued that Section 21(1) of Act 654 permits the Minister to cause public funds to be invested on behalf of Government in the purchase of securities for such periods and on such terms as the Minister thinks fit.

25. The Committee however observed that these practical difficulties have been addressed by Section 11 of the Loans Act, Act 335 and accordingly recommends that the Ministry should in future project at the beginning of a given year, the likely terms and conditions of these instruments for a specified period and submit same to Parliament for approval.

Foreign Loans

26. The outstanding foreign loan balance was ₦50,003.2billion as at 31st December 2003 whereas a balance of ₦41,173.3billion was recorded as at year end 31st December 2002, an increase of ₦8,829.9billion or 21.5%. The balance for 2004 on the other hand was ₦60,385.8billion, an increase of ₦10,382.6billion or 20.8%.

Trust Funds

27. Trust Funds rose from ₦1,207.6billion in 2002 to ₦2,030.5billion in 2003, an increase of ₦822.9billion or 68.1%. The value of Trust Funds however dipped to ₦513.0billion in 2004.

Accrual Basis of Accounting

28. It was noted that the financial statements were prepared on modified cash basis contrary to the provisions of the Financial Administration Act (Act 654) which obliges the CAG to prepare the financial statements on accrual basis.

29. Your Committee observed that Act 654 did not provide for a transitional period for the CAG to move from modified cash accounting to accrual system. Your Committee accordingly recommends an amendment to Act 654, granting the CAG a time-frame within which to roll-out the accrual system.

PART II
DETAILS OF FINDINGS

Budget Out-Turn

30. The budget out-turn recorded a deficit of €33.3billion at end of 2003 as against a projected surplus of €465.2billion. On the other hand, a surplus of €1,817.7billion was realized as at end of December 2004 as against an out-turn deficit of €1,611.5billion projected at the beginning of the year.

31. The comparative figures of the budget out turn for years 2002, 2003 and 2004 are shown in table I below:

TABLE I COMPARATIVE BUDGET OUT-TURN (€billions)

ITEM	2002		2003		2004	
	Budget	Actual	Budget	Actual	Budget	Actual
Revenue	10,231.6	10,248.9	17,520.1	15,606.5	21,365.3	23,773.6
Expenditure	11,024.6	11,188.4	17,054.9	15,639.8	22,976.8	21,955.9
Surplus/(Deficit)	(792.8)	(939.5)	465.2	(33.3)	(1,611.5)	1,817.7

Operational Results

32. In year 2003, a deficit of €33.3billion was recorded as against a projected surplus of €465.2billion. The deficit resulted from a 10.9% shortfall in revenue generation. The deficit was financed through domestic borrowing. The deficit of €33.3billion sustained in 2003 was, however, lower than the deficit of €939.5billion recorded in 2002.

33. On the other hand, a surplus of €1,817.7billion was achieved in 2004 as opposed to a projected deficit of €1,611.5billion. The surplus was achieved primarily as a result of an increase in revenue mobilization and a cut in budgetary allocations to MDAs.

Revenue Performance

34. The revenue performance between the budget estimates and the actuals for 2003 and 2004 are shown in Table II below:

TABLE II COMPARATIVE REVENUE PERFORMANCE IN 2003 AND 2004
(€billions)

2003					2004				
Item	Budget	Actuals	Variance	%	Item	Budget	Actuals	Variance	%
Indirect Taxes	2,087.5	3,617.7	1,530.2	73.3	Indirect Taxes	2,333.4	3,711.9	1,478.5	66.2
Direct Taxes	4,629.2	4,081.5	(547.7)	(11.8)	Direct Taxes	4,628.6	4,930.4	311.8	6.7
Taxes on Int. transactions	3,142.6	2,989.8	(152.8)	(4.9)	Taxes on Int. transactions	3,666.6	6,793.5	3,126.9	85.3
VAT	3,593.7	2,509.2	(1,084.5)	(30.2)	VAT	4,203.9	1,431.7	(2,772.2)	(65.9)
Non-tax Revenue	434.7	384.1	(50.6)	(11.6)	Non-tax Revenue	517	1,136.8	619.8	119.9
Grants	2,459.6	724.5	(1,735.1)	(70.5)	Grants	2,058.7	3,087.5	1,028.8	50
HIPC assistance	732.7	937.2	204.5	27.9	HIPC assistance	1,508	1,928.3	420.3	27.9
Divestiture receipts & NPART	440.1	362.5	(77.6)	(17.6)	Divestiture receipts	426.8	285.7	(141.1)	(33.1)
-	-	-	-	-	NHIL	420.4	93.8	(326.6)	(74.7)
-	-	-	-	-	Other tax measures	1,711.9	374	(1,758.3)	(102.7)
TOTAL	17,520.1	15,606.5	(1,913.6)	(10.9)	TOTAL	21,365.3	23,773.6	2,408.3	11.3

35. Total revenue realized in 2003 was €15,606.5billion compared with an estimated figure of €17,520.1billion, a shortfall of €1,913.6billion or 11%.

36. Six revenue items from the above table recorded shortfalls, the worst being grants in both nominal and percentage terms. An estimated inflow from grants was €2,459.6billion out of which only €724.5billion was received, a shortfall of €1,735.1billion or 70.5%.

37. Revenue from Value Added Tax equally performed poorly in 2003. An amount of €3,593.7billion was budgeted for whereas €2,509.2billion was collected, indicating a shortfall of €1,084.5billion or 30.2%. Indirect taxes however recorded a significant increase. An amount of €2,087.5billion was projected for 2003 whereas €3,617.7billion was realized, as at year end, an increase of €1,530.2billion or 73.3%.

38. Revenue performance for 2004 however, showed significant improvement. A figure of €21,365.3billion was budgeted for whereas an amount of €23,773.6billion was realized, a favourable variance of €2,408.3billion or 11.3%. The 2004 actual revenue of €23,773.6billion showed a positive variance of €8,167.1billion or 52.3% compared with the 2003 figure of €15,606.5billion.

39. Six out of ten revenue items exceeded their targets in 2004. Taxes on international transactions particularly recorded a significant variance of €3,126.9billion or 85% between the estimated figure of €3,666.6billion and the actual figure of €6,793.5billion.

40. Receipts from grants also recorded a positive variance of €1,028.8billion or 50% between the budget figure of €2,058.7billion and the actual of €3,087.5billion.

41. Receipts from NHIL and other taxes however recorded negative variances between the budget figure and the actuals. NHIL had a negative variance of €326.6billion or 77.7% whereas other taxes had a negative variance of €1,753billion or 102.7%.

42. HIPC assistance equally recorded a significant variance of €420.3billion or 27.9% between the estimated figure of €1,508billion and the actual of €1,928.3billion.

Expenditure Performance

43. Actual Government expenditure for 2003 was €15,639.8billion as against a budgeted expenditure of €17,054.9billion, resulting in a saving of €1,415.1billion or 8.3%. As indicated earlier, the savings was as a result of cuts in MDAs' votes and a reduction in public debt interest payment from a budget figure of €4,175.9billion to actual payment of €3,355.4billion.

44. The reduction in public debt interest payment resulted from the Government's opting for the HIPC initiative.

45. The Consolidated Fund equally recorded a reduction in expenditure in 2004 compared with the projected figure. Actual expenditure for 2004 was ₵21,956 billion whereas the budgeted figure was ₵22,976.8 billion, a reduction of ₵1,020.8 billion or 4.4%.

46. As was the case in 2003, the reduction in expenditure in 2004 was due to reduction in allocations to MDAs, particularly in respect of service and investment expenditures. The savings generated from the budget cuts were used in subsidizing the operations of VRA and TOR. Total subsidy payment to the two organizations amounted to ₵1,819.3 billion as against a projection of ₵392 billion, a variance of ₵1,427.3 billion or 364.1%.

47. The variance was attributed to the country reaching the HIPC completion point in July 2004. A total debt relief of US\$3.5 billion was received from the country's creditors. By reaching the completion point, US\$1.5 billion of Ghana's debt stock was cancelled.

48. The expenditure details by item for 2003 and 2004 are indicated below in Table III:

TABLE III COMPARATIVE ANALYSIS OF EXPENDITURE FIGURES IN 2003 AND 2004

2003					2004				
Item	Budget	Actual	Variance	%	Item	Budget	Actual	Variance	%
Personnel-Related Cost	€ Billion	€Billion	€ Billion		Personnel-Related Cost	€Billion	€Billion	€ Billion	
Personnel emolument	5,497.5	5,480.5	17.0	0.3	Personnel emolument	6,631.9	6,892.5	(260.6)	(3.9)
12.5% SSF	407.4	411.1	(3.7)	(0.9)	12.5% SSF	484.5	495.1	(10.6)	(2.2)
Pensions and Gratuity	509.6	556.0	(46.4)	(9.1)	Pension and Gratuity	570.4	750.8	(180.4)	(31.6)
Administration	1,025.8	997.0	28.8	2.8	Administration	1,558.6	1,248.5	310.1	19.9
Service	702.5	620.4	82.1	11.7	Service	1,175.7	819.9	355.8	30.3
Investment	409.4	252.6	156.8	38.3	Investment	3,639.3	538.3	3,101.0	85.2
DACF	588.8	635.5	(46.7)	(7.9)	DACF	787.2	803.3	(16.1)	(2.1)
GETFund	756.5	751.0	5.5	0.7	GETFund	810.5	871.4	(60.9)	(7.5)
PRF	649.8	664.7	(14.9)	(2.3)	PRF	74.6	70.5	4.1	(5.5)
Rd. & Bob-Rd. arrears	630.9	501.8	129.1	20.5	Rd. & Non-Rd. Arrears	166.2	159.8	6.4	3.9
HIPC exp.	956.1	722.2	233.9	24.5	HIPC exp.	1,206.4	1,787.1	(580.7)	(48.1)
Pub. Debt Int.	4,175.9	3,355.4	820.5	19.6	Pub. Debt Int.	3,428.6	3,506.8	(78.2)	(2.3)
Utility Subsidies	139.5	341.4	(201.9)	(144.7)	Utility Price Sub.	392.0	1,819.2	(1,427.2)	(364.1)
VAT Refund	107.8	62.0	45.8	42.5	VAT Refund	126.1	55.3	70.8	56.2
Cont. Exp.	497.4	288.2	209.2	42.1	Cont. Exp.	896.7	611.3	285.4	28.8
-	-	-	-	-	Road Fund	607.7	639.5	(31.8)	(5.2)
-	-	-	-	-	NHIL	420.4	-	420.4	100
-	-	-	-	-	Other Payment	-	886.7	886.7	(100)
-	-	-	-	-					
Grand total	17,054.9	15,639.8	1,415.1	8.3	Grand Total	22,976.8	21,956.0	1,020.8	4.4

Grants

49. The audit revealed that project grants totaling €1,425.1billion received from donors in 2003 were not included in the financial statements. Similarly, in 2004, a total of €1,453.0billion, SDR42.7million and BUA566,696 of project grants were not disclosed in the financial statements of that year.

50. Officials of MOFEP indicated that the disbursements were made offshore by the respective donors directly to the MDAs. The information was also not made available to the Ministry or the Controller and Accountant-General to enable the two bodies capture it in the financial statement.

51. The CAG, however, indicated that measures have been instituted in conjunction with the Auditor-General to reconcile all project grants before the finalization of the public accounts. The CAG further stated that the 2005 accounts were circulated to the country's donor partners to confirm their contributions to project grants and also for MDBS. The CAGD is also strengthening its Public Accounts and Public Debts and Investment Sections to enable them monitor and report on the position of project grants in the department's monthly accounts.

52. The details of the project grants are provided in table IV:

Table IV: Project grants not included in financial statements (2004)

Donor	Currency	Amount	US\$
European Economic Commission	EUR	419,379.00	570,355.44
International Development Asso.	USD	720,246.69	720,246.69
The Government of the Netherlands	EUR	22,860,809.04	31,090,700.29
The Government of the U.K.	GBP	64,943,601.00	125,178,790.92
United Nations Dev. Programme	USD	2,599,297.00	2,599,297.00
United Nations Population Agency	USD	1,281,248.00	1,281,248.00
Total	-	-	161,440,638.34
OTHERS			
African Development Fund	BUA	566,695.50	
Int. Development Asso.	SDR	42,713,886.55	

53. The Auditor-General further noted that total programme grants under the MDBS deferred at the beginning of year 2004 amounted to ₦1,668.0billion whilst

€1,762.9 billion was received from six donors during year 2004. This brought the total programme grants received during 2004 to €3,430.9 billion out of which €3,089.5 billion was disbursed.

54. Information available to the Committee however revealed that part of the MDBS contribution of the Dutch and Danish Governments were not captured in the Report of the Auditor-General.

55. According to the Auditor-General, the examination of the supplementary information from MOFEP and CAGD revealed that the total Dutch grant for 2004 was €16,500,000 and not €11,000,000 as originally captured.

56. The discrepancy resulted from vague disbursement instructions and wrong classification of disbursement from BoG and CAG in relation to three different grant receipts.

57. On the other hand, a Danish disbursement of US\$3,986,000 was omitted. The omission was as a result of the said amount not credited to the Treasury Main Account (TMA) but rather transferred, together with other payments, into an escrow account.

58. Total grants received for MDBS for 2004 was thus €1,784,129,780,000. The details are shown in table V below:

Table V MDBS grants for 2004

Donor	Amount	€Million
Canada	C\$7,749,937	58,767.46
Netherlands	EUR16,500,000,000	5,192,603.88
Danish Government	US\$3,986,000	35,992.78
Switzerland	US\$621,487	49,562.18
	SFR9,000,000	70,763.67
United Kingdom	£41,716,467	695,223.01
European Union	EUR27,850,000	314,703.06
The World Bank	US\$40,834,540	366,513.74
Total		1,784,129.78

Inadequate Disclosures

59. The audit of the final accounts for 2003 revealed that the CAG was unable to attach qualifying information on the contingent liabilities, uncollected revenue, undischarged commitments and unpaid bills to the financial statements. The inability of the CAG to disclose the above information was due to the failure of MDAs to furnish the CAG with the said information.

PART III BALANCE SHEETS

Balance Sheet as at 31st December 2003

Assets

Cash

60. An overdrawn Cash balance of ₵6,005.5billion was recorded in 2003 as against an overdrawn cash balance of ₵6,201.7billion recorded in 2002, a decrease of ₵196.2billion or 3.2%.

61. According to the Auditor-General, he could not validate the overdrawn balance of ₵6,005.5billion because Bank of Ghana could only confirm balances on 244 accounts amounting to ₵707.1billion as against 422 accounts listed in the balance sheet by the CAG.

Advances

62. Outstanding advances amounted to ₵65.4billion as against ₵34.1billion noted in year 2002, an increase of ₵31.3billion or 91.8%. The increase according to the Auditor-General was due mainly to adjustments made to the salary advances schedule to remove credit balance totaling ₵31.1billion which had been caused by coding problems. Advances granted during the year was ₵7.1billion whereas ₵15.9billion was recovered, resulting in a net recovery of ₵8.8billion.

Loans Granted by Government

63. The loan balance for 2003 was €9,361.2billion as against the 2002 figure of €9,366.8billion, a decrease of €5.6billion or 0.06%. The reduction was as a result of a difference between recoveries of €32.5billion realized in 2003 and an exchange gain of €26.9billion.

Investments

64. Government investments in public boards, corporations, International agencies and other bodies increased from €304.3billion in 2002 to €308.0billion in 2003, an increase of €3.7billion or 1.2%. It was noted that the increase was due to an overstatement of Government's equity investment in Afrika Women's Bank by €3.2billion. This error was rectified in the preparation of the 2004 final accounts.

General Revenue Balance

65. The General Revenue Balance increased by €9,244.1billion or 18.0% from €51,387.2billion in 2002 to €60,631.3billion in 2003.

Analysis of Consolidated Fund Assets

66. The Consolidated Fund Assets for 2003 was €64,360.6billion comprising funded assets of €3,729.3billion (5.8%) and unrealizable assets of €60,631.3billion (94.2%). In year 2002, the Consolidated Fund assets position was €54,890.7billion made up of funded assets of €3,503.5billion (6.4%) and unrealizable assets of €51,387.2billion (93.6%).

Liabilities

67. The Consolidated Fund liabilities for 2003 was €64,360.6billion, an increase of €9,469.9billion or 17.3% over the previous year's figure of €54,890.7billion.

Domestic Debt

68. The total domestic debt for 2003 was €12,326.9billion compared with the previous year's amount of €12,509.8billion, a reduction of €182.9billion or 1.5%.

69. Your Committee noted that the domestic debt of €12,326.9billion differs from Bank of Ghana's figure of €13,591.1billion, a variance of €1,264.2billion or 10.3%.

70. It was noted that there was a prior year adjustment in the final accounts of 2004 and that has rectified the differences between BoG and CAG's figures. The differences were therefore not reflected in the 2004 Report.

Foreign Loans

71. The outstanding foreign loan balance was €50,003.2billion as at 31st December 2003 whereas a balance of €41,173.3billion was recorded as at 31st December 2002, recording an increase of €8,829.9billion or 21.5%.

Trust Funds

72. Trust Funds rose from €1,207.6billion in 2002 to €2,030.5billion in 2003, an increase of €822.9billion or 68.1%.

Balance Sheet As At 31st December 2004

Assets

Cash

73. An overdrawn position of €5,465.7billion was recorded in 2004, a reduction of 539.8billion or 8.9% compared with the 2003 figure of €6,005.5billion.

74. Your Committee observed that the many accounts operated by MDAs delays the timely reconciliation of financial statements. The CAG acknowledged

the Committee's observation and indicated that a committee has been set to review the various accounts operated by MDAs. In the meantime, the CAGD has initiated a process of having one treasury account for each MDA. Regional Co-ordinating Councils and MMDAs will also have respective Sub-Consolidated Fund accounts. These respective accounts will receive funds from the Consolidated Fund, IGF and donor funds.

Advances

75. The balances on advances stood at ₵71.8billion, an increase of ₵6.3 billion or 9.6%. The figure includes ₵39.3 billion which was termed "Other Departmental Advances". These were explained to be advances to MDAs and their staff, which had not been accounted for over the years. In the previous year the balance was ₵37.8 billion. This issue has since been addressed in the 2005 final accounts.

Loans Granted by Government

76. The loan balance moved down from ₵9,361.2billion in 2003 to ₵6,695.3billion in 2004, a decrease of ₵2,665.9billion or 28.5%. The decrease resulted from loan adjustments to Volta River Authority (VRA), Ghana Water Company Limited (GWCL) and Electricity Company of Ghana (ECG) to the tune of ₵2,531.0billion and an exchange gain of ₵172.2billion. Additionally, total payments of ₵16.0billion was made during the year.

77. Your Committee observed that some of the loans have been in the final accounts of Government for a very long time. Some of the loans pre-date Ghana's independence. They include payments to loot victims in 1948 following disturbances in that year, West African Airways Corporation, Willowbrook and Diamond Market.

78. Some of the loans were also in respect of companies and corporations that have since been divested. They include the various Regional Development

Corporations and entities under GIHOC. Others are companies that are defunct or have been liquidated such as Bank for Housing and Construction.

79. The Committee noted that some of these loans are irrecoverable and therefore urges MOFEP and CAGD to investigate the loan schedule of the Consolidated Fund, and submit to Parliament, a list of loans that in their opinion ought to be written-off for necessary action.

Investments

80. Government equity investments increased from ₪308.0billion in 2003 to ₪348.9billion in 2004, an increase of ₪40.9billion or 13.3%.

General Revenue Balance

81. The General Revenue Balance increased by ₪15,514.3billion or 25.5% from ₪60,631.3billion in 2003 to ₪76,145.6billion.

Liabilities

82. The liabilities of the Consolidated Fund stood at ₪77,796.0billion as at 31st December 2004, an increase of ₪13,435.4billion or 20.8% over the previous year's figure of ₪64,360.6billion.

Domestic Debt

83. The domestic debt component of the Consolidated Fund liabilities rose by ₪4,570.3billion or 37% from ₪12,326.9billion in 2003 to ₪16,897.2billion in 2004. According to the Auditor-General, in year 2004, Government issued securities totaling ₪27,338.6billion and redeemed ₪24,032.4billion without Parliament's approval.

84. The Ministry and BoG however informed your Committee that the Public Sector Borrowing Requirement (PSBR) for 2003 and 2004 were part of the budget

proposals that were approved by Parliament for the two years. According to the Ministry and the Bank, the domestic borrowing was thus undertaken with Parliament's approval.

85. Some Members however differed on the opinion of MOFEP and BoG. According to the Members, Section 7 of the Loans Act, 1970, Act 335 requires Parliament to approve the terms and conditions of any loan obtained by Government. This is reinforced by Art. 181(3) and 4(a). Art 181(3) states that:-

"No loan shall be raised by the Government on behalf of itself or any other public institution or authority otherwise than by or under the authority of an Act of Parliament".

Clause 4(a) of the above Art further states that:-

"An Act of Parliament enacted in accordance with clause (3) of this article shall provide -

(a) that the terms and conditions of the loan shall be laid before Parliament and shall not come into operation unless they have been approved by a resolution of Parliament".

86. The Members contend that a "loan" according to Art. 181(6) includes any moneys lent or given to or by the Government on condition of return or repayment, and any other form of borrowing or lending in respect of which moneys from the Consolidated Fund or any other public fund may be used for payment or repayment.

87. The Loans Act, Act 335, Section 22 also defines "Securities" to include securities of Government, bonds, notes, deposits, certificates, debentures and treasury bills.

88. According to the Members the issuance and redemption of securities is a form of borrowing by Government in respect of which funds from the Consolidated Fund is to be used for repayment.

89. The terms and conditions of these securities therefore ought to have been laid before Parliament for approval as provided for by Art. 181(4) and Section 7 of Act 335. The Members contend that the terms and conditions of these securities were not part of the Appropriation Bills for 2003 and 2004 that were passed by Parliament. The argument by MOFEP and BoG that PSBR was approved by Parliament does not therefore satisfy the requirements of the Constitution and the Loans Act, Act 335.

90. Officials of MOFEP however pointed out that it would be practically impossible to submit the terms and conditions of these securities to Parliament since the said terms and conditions change almost everyday. They further argued that Section 21(1) of Act 654 permits the Minister to cause public funds to be invested on behalf of Government in the purchase of securities for such periods and on such terms as the Minister thinks fit.

91. The Ministry further stated that the issuance and redemption of such debt instruments is a tool used for macro-economic management and does not necessarily constitute borrowing within the meaning of "loans" as captured in the Constitution and the Loans Act.

92. Your Committee is of the view that issuance and redemption of securities is a form of borrowing for which moneys from the Consolidated Fund had to be committed for the payment of the principal and interest. The Committee also acknowledges the practical difficulties in submitting to Parliament, the terms and conditions of these debt instruments anytime there is a variation in the terms and conditions.

93. The Committee however observed that these practical difficulties have been addressed by Section 11 of Act 335. This section allows Parliament to approve from time to time, standard terms and conditions and up to such limits as the resolution may prescribe.

Recommendation

94. The Committee accordingly recommends that the Ministry should in future project at the beginning of a given year, the likely terms and conditions of these instruments for a specified period and submit same to Parliament for approval.

Foreign Loans

95. Foreign loan balance for 2004 was €60,385.8billion, an increase of €10,382.6billion or 20.8% over the 2003 figure of €50,003.2billion.

Trust Funds

96. The value of Trust Funds on the other hand dipped from €2,030.5billion in 2003 to €513.0billion in 2004. The decrease of €1,517.5billion or 74.7% resulted from increased disbursement to external counterpart funds balances and also prior year adjustments of €400.5billion.

Accruals Basis of Accounting

97. The audit noted that the financial statements continued to be prepared on modified cash basis contrary to Act 654. The Financial Administration Act (Act 654) obliges the CAG to prepare the financial statements on accrual basis to ensure full disclosure and completeness of information in the statements.

98. The CAG informed the Committee that a full roll-out of the Budget and Public Expenditure Management System (BPEMS) will address the concerns regarding accrual accounting.

99. Your Committee observed that Act 654 did not provide for a transitional period for the CAG to move from modified cash accounting to accrual system. The Committee noted that it was practically impossible for the CAG to immediately commence the preparation of the financial statements on accrual basis upon the coming into force of Act 654.

Recommendation

100. Your Committee accordingly recommends an amendment to Act 654, granting the CAG a time-frame within which to roll-out the accrual system.

CONCLUSION

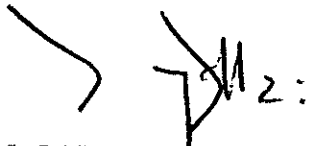
101. The Auditor-General has issued qualified opinions for the two accounts of 2003 and 2004. The Auditor-General could not confirm the overdrawn cash balance of ₦6,005.5 billion in 2003; Projects grants totaling ₦1,425.1 billion were also not disclosed in the financial statements and MDAs failed to disclose key qualifying information required by legislation.

102. In 2004 project grants were also not fully disclosed in the financial statements and the Auditor-General was unable to verify a departmental advance of ₦39.3 billion. Parliamentary approval was also not sought for the issuance and redemption of securities.

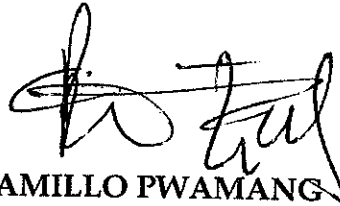
103. Except for the above issues, the CAG was noted to have maintained proper books of records.

104. In conclusion, the Committee wishes to urge MOFEP to expedite action on the roll-out of BPEMS that will take cognizance of accrual accounting. In the meantime, the Ministry should propose an amendment to Act 654 to provide for a transition period for the roll-out programme in order to avoid the Auditor-General qualifying the financial statements in future for non-compliance.

Respectfully submitted.



**HON. SAMUEL SALLAS-MENSAH
CHAIRMAN, PUBLIC ACCOUNTS
COMMITTEE**



**CAMILLO PWAMANG
CLERK, PUBLIC ACCOUNTS
COMMITTEE**

20th July 2006