



Government of Ghana

**Intergovernmental
Fiscal Decentralisation Framework**

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Intergovernmental Fiscal Decentralisation Framework

List of Abbreviations

CAGD	Controller and Accountant General's Department
CIDA	Canadian International Development Agency
DA	District Assemblies
DACF	District Assemblies Common Fund
DCD	District Coordinating Director
DCE	District Chief Executive
DDF	District Development Fund
DPCU	District Planning Coordinating Units
FAA	Financial Administration Act 654
FAR	Financial Administration Regulation
FOAT	Functional and Organisational Assessment Tool
GOG	Government of Ghana
HIPC	Highly Indebted Poor Country
IGFs	Internally Generated Funds
IGFF	Intergovernmental Fiscal Decentralisation Framework
ILGS	Institute of Local Government Service
IMCC	Inter-Ministerial Coordinating Committee
LGS	Local Government Service
LGSC	Local Government Service Council
LI	Legislative Instrument
M&E	Monitoring and Evaluation
MDA	Ministries, Departments and Agencies
MDF	Mineral Development Fund
MLGRDE	Ministry of Local Government, Rural Development and Environment
MMDA	Metropolitan, Municipal and District Assemblies
MOFEP	Ministry of Finance and Economic Planning
MP	Member of Parliament
MTEF	Medium Term Expenditure Framework
NDPC	National Development Planning Commission
NGO	Non-Government Organisation
OASL	Office of the Administrator of Stool Lands
RCC	Regional Coordinating Council
RPCU	Regional Planning Coordinating Units

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Executive Summary

Through the 1992 Constitution and subsequently various other legislative instruments, Ghana has long been committed to decentralisation. The goals of the decentralisation program are:

- Strengthening and expanding local democracy,
- Promoting local social and economic development and
- Reducing poverty and increasing the choices of the people.

In March 2007, the Ministry of Local Government, Rural Development and Environment issued a *Draft Comprehensive Decentralisation Policy Framework* with the objective to “...deepen political, administrative and fiscal decentralisation in Ghana and to reaffirm the Government’s commitment to the policy of decentralisation in conjunction with people’s participation.”

Intergovernmental fiscal decentralisation focuses on the financial component of the larger decentralisation program. The Constitution prescribes a devolved form of decentralisation where there is a transfer of authority for decision-making, finances and management from the central to the local governments. However, the central government still performs many functions that should be moved to the district level and controls the majority of regional and district financial resources. As a result, the Framework seeks to provide clarification on these issues.

The primary goal of this Framework is to provide a comprehensive road map which has broad based support for the vision of fiscal decentralisation as well as the strategies to meet that vision. The Framework addresses the functions between the central and sub-national levels of government, the resource gaps at the sub-national levels and the financial accountability capacity issues at the sub-national levels.

The Framework defines the relationships under the fiscal decentralisation vision between the different layers of government, the functions assigned to each layer and the authorities granted to the sub-national governments by the central government. The goals for functional assignment are guided by the principles of devolution and subsidiarity where responsibilities are transferred to the lowest level of government which can most efficiently provide the goods or services.

In general, however, primary broad responsibilities of each level of government are defined as: setting national standards and guidelines by the central government; harmonisation, coordination and monitoring and evaluation by the RCCs; providing services to the citizens of their Districts by the MMDAs. A further breakdown is provided of the intended functional relationships and the levels of autonomy assigned to the different levels of government for organization structure, policy and planning, budgeting, financial management, revenue generation and staffing.

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The Framework also includes all aspects of MMDA taxing authority and mobilization, all central government transfers to the RCCs and MMDAs including the DACF, development partner support and borrowing authority. To achieve devolution as defined under the Constitution, the RCCs and MMDAs must be responsive to the citizens of their jurisdictions. To this end, they must have adequate financial resources to fulfill their assigned responsibilities and functions as well as the ability to plan and manage those resources. Other goals for revenue and funding arrangements, briefly: clear assignment of revenues; alignment of revenue with RCC and MMDA functional responsibilities; a transfer system which is harmonized and simple with performance based triggers to promote accountability and transparency; the ability of MMDAs to access credit or financial markets within defined risk limitations.

The Framework covers a broad range of financial management areas including planning and budgeting, procurement, internal and external audit, payroll, accounting, financial reporting and monitoring and evaluation of finances and programmes. Local governments operating in a decentralised environment should have integrated financial management systems which are transparent, responsible and accountable to provide citizens and taxpayers with the assurance that public funds are safe and being used prudently.

One of the challenges of the intergovernmental fiscal decentralisation program will be a consistent focus, continued progress and deepening the level of understanding of the issues. The Institutional Arrangements should be structured to enhance the ability of the government to meet these challenges.

The Summary of Strategies For Moving Forward Are Presented in Appendix A.

Introduction

Ghana's commitment to decentralisation is embodied in the 1992 Constitution and in various legislative instruments and has been the policy of successive governments. The goals of the decentralisation program in Ghana are:

- Strengthening and expanding local democracy,
- Promoting local social and economic development and
- Reducing poverty and increasing the choices of the people.

Decentralisation is occurring around the world in response to pressures which are largely beyond government control. Managed well, decentralisation has the potential to improve efficiency in mobilising and allocating scarce national resources to improve the way in which local needs are identified and met, and to improve accountability and good governance.¹

¹ Ghana Fiscal Decentralisation Project Design Report, CIDA Project #400/1878, issued September 2002.

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There are several components to the decentralisation reform program: legal and policy framework, intergovernmental fiscal relations, public financial management, decentralized human resource management and institutional arrangements for policy coordination and management.

Legal Environment

The 1992 Constitution of Ghana recognising the diversity of local government reform mandates a commitment to decentralisation and ensures a decentralised local government system. Chapter 6, Article 35 (6) d, of the 1992 Constitution establishes a decentralised government structure for Ghana:

The State will make democracy a reality by decentralisation of the administrative and financial machinery of government to the regions and districts and by affording all opportunities to the people to participate in decision-making at every level.

The Constitution further describes the decentralised form of government as well as the process to move from a centralised state to a decentralised state:

- Functions, powers, responsibilities and resources should be transferred from the central government to local government units in a coordinated manner.
- The capacity of local government authorities to plan, initiate, coordinate, manage and execute policies in respect of all matters affecting the people within their areas, with a view to ultimately achieving localisation of those activities.
- Each local government unit should have a sound financial base with adequate and reliable sources of revenue.
- Staff in the service of local government will be under the control of local authorities.

The Constitution prescribes a devolved form of decentralisation. Devolution is generally defined as the transfer of authority for decision-making, finance and management from the central government to quasi-autonomous units of local government with corporate status. Devolution transfers responsibilities for services to local governments that raise their own revenues and have authority to make investment decisions. In a devolved system, local governments have clear and legally recognized geographical boundaries over which they exercise authority and within which they perform public functions and services.

Besides the Constitution, other important legislation supports and defines the scope of decentralisation:

Local Government Act, 1993 (Act 462)

The Local Government Act focuses on the political and administrative arrangements associated with the RCCs and MMDAs. The Act provides MMDAs with the responsibility for managing overall development within the Districts and outlines the framework for the MMDAs to exercise their executive and legislative functions by specifying the operations of

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the general assembly, planning functions, financial issues, rating responsibilities and auditing requirements. The Act also establishes the District and Regional Planning Coordinating Units and defines the allowable revenues that can be generated by District Assemblies.

Enabling Legislative Instruments

Beyond the Local Government Act, every MMDA has a Legislative Instrument defining its jurisdiction and specifying the functions to be performed.

Local Government Service Act, 2003 (Act 656)

The Local Government Service Act establishes the Local Government Service and introduces a separation between the Civil Service, representing personnel of central government agencies, and the Local Government Service, representing personnel rendering services at the RCCs and MMDAs. The functions of the Service include providing technical assistance to the RCCs and MMDAs to enable them to perform their responsibilities effectively, conducting organisational and job analysis, designing and coordinating management systems and processes and designing and monitoring performance standards. The LGS is also responsible for initiating plans and programmes to activate and accelerate the local government decentralisation process.

National Development Planning (System Act), 1994 (Act 480)

The planning functions are defined by the National Development Planning (System Act) which provides the framework for decentralised development planning of MMDAs and the planning functions of the RCCs.

District Assembly's Common Fund Act, 2003 (Act 455)

The District Assembly's Common Fund Act develops the structure, responsibilities and operations of the DACF. The Constitution requires Parliament to annually allocate not less than 5% of total central government revenues to the MMDAs for development purposes.

Other important legislation:

Public Procurement Act, 2003 (Act 663)
Audit Service Act, 2000 (Act 584)
Internal Audit Agency Act, 2003 (Act 658)
Financial Administration Act, 2003 (Act 654)
Financial Administration Regulations, 2004 (LI1802)

Decentralisation Policy and Goals

In March 2007, the Ministry of Local Government, Rural Development and Environment issued a *Draft Comprehensive Decentralisation Policy Framework* with the objective to "...deepen political, administrative and fiscal decentralisation in Ghana and to reaffirm the Government's commitment to the policy of decentralisation in conjunction with people's participation." The fiscal framework and financial management guiding principles iterated in this policy document are important statements and have been used as a basis for this framework.

- Expenditure assignments to the local governments shall be in accordance with the principle of subsidiarity, where tasks are transferred to the lowest possible level

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closest to the people. The expenditure assignment shall be well defined for each tier of governance to pursue efficiency and accountability.

- Revenue assignment should be clearly defined and aligned with the DAs function and commensurate with these, allowing the DAs sufficient room to adjust revenues to local needs.
- The legal framework for the expenditure and revenue assignment shall be clearly stipulated to avoid doubts and conflict.
- Fiscal transfer systems shall be harmonised, made simple, objective, fair transparent, timely, poverty sensitive and with an element of performance base allocation of funds to promote DA efficiency and good governance.
- Through implementation of the DDF and FOAT, triggers and indicators shall be provided to ensure systems of DAs finance promote downward accountability, transparency and participation in the execution of the core business of the DAs.
- A mechanism shall be put in place to ensure that various reform initiatives in the field of fiscal decentralisation are well coordinated.

The Intergovernmental Fiscal Decentralisation Framework

The Intergovernmental Fiscal Decentralisation Framework covers all aspects of expenditure, revenue and service delivery arrangements between the national and sub-national levels of government. This includes the assignment of functions; authority for decision-making over resources and staffing; taxing and regulatory responsibilities; funding arrangements; financial management and accountability.

Objectives and Principles

The primary objective of the Intergovernmental Fiscal Decentralisation Framework is to provide a comprehensive road map which has a broad based support for the way forward for fiscal decentralisation. The framework:

- Articulates the goals and target environment for fiscal decentralisation in Ghana.
- Identifies and harmonises the fiscal decentralisation reform efforts currently underway by the many different central government MDAs.
- Presents the gaps between the current environment and the target environment.
- Develops strategies and priorities for moving forward.

The strategies include the regulatory framework, financing, capacity building, coordination, sensitisation, communication and institutional arrangements.

The core principles underlying intergovernmental fiscal decentralisation:

- Functional assignments should be clear and assigned to the lowest level of government which has sufficient human resources, technical and financial capacity to perform the function.
- Revenue assignments should be clearly allocated to each level of government to avoid ambiguities and overlaps, dependent on expenditure assignments and commensurate with the expenditure needs of the local governments.

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- The funding system for local governments should combine local government internally generated funds with transfers from the central government and, to the extent possible, eliminate horizontal and vertical funding gaps.
- The IGFs should be significant, buoyant and reliable, providing ownership, sustainability and installing proper links between costs and benefits of service provision. Local governments should have the autonomy to adjust the level of services to local needs.
- Intergovernmental fiscal transfers should be based on transparent, objective and fair allocation formulas reflecting the needs and functions of the various units of government and avoiding local inequities.
- The intergovernmental fiscal system should allow for improvements based on monitoring and evaluation systems with appropriate performance indicators.
- Bottom-up and participatory planning and budgeting procedures should be pursued in a resource constrained manner with realistic planning and budgeting figures and timely announcements of amounts from the central government.
- The system should recognize the various types and sizes of governments and consider their capacity and strengths.
- Strong systems for intergovernmental coordination and collaboration on local government financial issues should be put in place.

Structure of the Framework

This framework was developed using a participatory approach and is structured into four categories:

Expenditure (Functional) Assignment and Authority – This component defines the relationships between the different layers of government, the functions assigned to each level and the authorities granted to the RCCs and the MMDAs by the central government.

Revenue and Funding Arrangements – Revenue and funding arrangements includes all aspects of MMDA taxing authority and mobilisation, all central government transfers to the RCCs and MMDAs including the District Assembly Common Fund and other transfers, direct and indirect development partner support and borrowing authorities.

Financial Management and Accountability – The financial management and accountability category includes a broad range of financial management issues which are necessary to be in place to have a decentralised environment which is transparent, responsible and accountable. It includes planning, budgeting, procurement and contract management, internal and external auditing, payroll, accounting and financial reporting and monitoring and evaluation.

Institutional Arrangements – This category focuses on the organisational arrangements which must be in place to ensure the reform initiatives are coordinated.

A companion planning document will be developed which will present an implementation plan and the related costs.

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Expenditure (Functional) Assignment and Authority

Policies and Target Environment

The first step in the design of this Framework is the clarification of functional responsibilities to the different national and sub-national layers of government. For purposes of this framework, the MMDA definitions and responsibilities are interpreted to include all sub-structures to the level of Area Council. Functional assignment is considered so important because the other components, revenue and funding arrangements and financial management and accountability, are dependent upon which government is responsible for which activities.

The definition of these relationships under devolution was guided by the principle of subsidiarity as provided for in the *Draft Comprehensive Decentralisation Policy Framework*:

Expenditure assignments to the local governments shall be in accordance with the principle of subsidiarity, where tasks are transferred to the lowest possible level closest to the people. The expenditure assignment shall be well defined for each tier of governance to pursue efficiency and accountability.

Under subsidiarity, government goods and services should be provided at the lowest level of government which can efficiently provide the goods or services because:

- The greater the distances between policy makers and citizens, the less informed policy makers will be about the preferences and needs of the people.
- Central government cannot easily accommodate differences between regions and districts.
- Public officials centrally are less accountable to citizens and voters.
- Shifting public services with wider benefit areas to smaller units of government can create inefficiencies such as the development of national or regional hospitals.
- Redistribution and stability, such as social welfare policies and funding (but not necessarily implementation) and fiscal policy, are best pursued by the central government.
- When services and goods are provided centrally, taxpayers are less willing to pay for services through local taxes, fees and service charges as the link between the payment for the service and the quality and cost of the service is lost.

The relationships between the MDAs, RCCs and MMDAs are presented in the following two tables to further define these relationships for the target environment in Ghana. Table 1 defines the broad functional responsibilities of each level of government. This Table should be used as a guide in conjunction with the subsidiarity principles when defining responsibilities. Under Table 1, the central government is primarily responsible for setting national standards and guidelines. The RCCs are responsible for

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harmonisation, coordination and monitoring and evaluation. The MMDAs are responsible for providing services to citizens of their Districts.

Table 1
Broad Functional Responsibilities for Each Level of Government

Level	Functions		
	Policy	Provisions	Production
National (MDAs)	<ul style="list-style-type: none"> • Formulate national policies and law at the centre. • Provide guidelines and standards • Create regulations • Perform monitoring and evaluation 	<ul style="list-style-type: none"> • Collect and consolidate data from the regions • Prioritize and select national projects • Coordinate and mobilize sources of funds • Allocate all public funds and remove ring-fencing 	<ul style="list-style-type: none"> • No delivery of service. • Provide technical support in an advisory role.
Regional (RCCs)	<ul style="list-style-type: none"> • Ensure national responsibilities are performed at a reduced scale • Coordinate 	<ul style="list-style-type: none"> • Monitor and evaluate • Harmonize 	<ul style="list-style-type: none"> • Provide services as legislated in the LI.
District (MMDAs)	<ul style="list-style-type: none"> • Implement national and district policies (laws, guidelines, etc.) • Formulate operational policies and legislations (bye-laws) • Monitoring and evaluation 	<ul style="list-style-type: none"> • Prepare and approve district development plans and budgets <ul style="list-style-type: none"> - Determine priorities - Allocate resources - Mobilize own resources - Mobilize external (MDAs) resources - Fund and support activities at the sub-district level 	<ul style="list-style-type: none"> • Deliver services as legislated (refer to the L.I establishing District Assemblies)

Table 2 on the next page presents a further break-down of the functional relationships under the target environment and the levels of authority and autonomy assigned to local governments for organisation structure, policy and planning, budgeting, financial management, revenue generation and staffing. The original chart was presented in the *Ghana Fiscal Decentralisation Project Design Report* issued in 2002 and has been tailored for Ghana. In line with the concept of devolution, the local governments will have a significant amount of flexibility and autonomy.

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Table 2
Functional Relationships and Levels of Autonomy

Characteristics	National Government	RCC's and MMDA's
Broad Relationship	<ul style="list-style-type: none"> Intervention into local government roles are through local government channels. 	<ul style="list-style-type: none"> Discretionary authority, bound only by broad national guidelines, and the human, financial and material capacities available to them.
Organisation Structure	<ul style="list-style-type: none"> Policy and planning guidelines in regard to local government services. 	<ul style="list-style-type: none"> Autonomy to design their policy, planning and operational structures
Policy and Planning	<ul style="list-style-type: none"> Policy and planning guidelines in regard to local government services. 	<ul style="list-style-type: none"> Within their discretionary powers, full responsibility for determining policy, planning and operational procedures which should be informed by national policies and priorities.
Financial Structure	<ul style="list-style-type: none"> Independent except through linkage, revenue sharing and/or transfer payments. 	<ul style="list-style-type: none"> Autonomous except through linkage, revenue sharing and/or transfer payments.
Fiscal Policy	<ul style="list-style-type: none"> Central government responsibility but may be affected by the extent to which revenue generation and expenditure responsibilities have been devolved to the local governments. 	<ul style="list-style-type: none"> Guided by the policies of the central government.
Revenue Generation	<ul style="list-style-type: none"> Generates revenues within its assigned taxing area. Undertakes revenue-sharing with and/or transfer payments with/to local governments. 	<ul style="list-style-type: none"> Generates revenues within its assigned tax regime (MMDA's only). Should receive transfer payments from central government.
Budget Preparation	<ul style="list-style-type: none"> Prepares and approves the central government budget in accordance with its legislated responsibilities. Prepares budget guidelines for local governments. Compiles consolidated budget for both central and local government. 	<ul style="list-style-type: none"> Prepares and approves integrated budgets in accordance with its targeted responsibilities.
Financial Management and Control	<ul style="list-style-type: none"> Independently manages and control own finances. Performs external audit functions for the local governments. Compiles monthly and annual consolidated financial reports for central and local government. 	<ul style="list-style-type: none"> Manages and controls own finances. Audited by external auditors in accordance with legislation. Prepares and / or compiles monthly and annual financial statements.
Public Sector Staffing	<ul style="list-style-type: none"> Central government responsible for human resource policy. Central government responsible for all aspects of human resource requirements within Central government. 	<ul style="list-style-type: none"> Responsible for all aspects of human resource management subject to general labour standards including: hiring, firing and rationalisation of manpower.

Legal Environment

Although the Constitution prescribes fiscal decentralisation in the form of devolution, there are significant conflicts between various legislations and this stated policy. An example of this is the mandating of RCCs and MMDAs departments within the Local

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Government Act, 2003 (Act 462) which undermines the local government's authority to structure their own operational environment. Under organisation structure in Table 2, MMDAs should have the autonomy to design their own organisational structures. There are also examples of overlapping responsibilities within enabling legislation for central government institutions such as the Ghana Education Service, Ghana Health Service and the MMDA Legislative Instruments. Additionally some important areas are silent with respect to MMDA responsibilities.

The Legislative Instrument which transfers local government staff responsibilities from Civil Service to Local Government Service and incorporates the new functional assignments was submitted to Cabinet for approval in December 2007.

To move forward on harmonizing the legal environment and clearly define the responsibilities of the RCCs and MMDAs:

- *The Legislative Instrument which incorporates the functional assignments and integration of decentralized departments was submitted to Cabinet for approval in December 2007.*
- *The Committee reviewing the Local Government Act 462 will re-review the Act to ensure harmonisation with the principles of devolution and the target environment relationships presented in this Intergovernmental Fiscal Decentralisation Framework.*
- *The Inter-Ministerial Coordinating Committee on decentralisation will initiate a process to enable the Executive and Parliament to address the issues of existing and new legislation through the review of all relevant legislation to ensure it supports the concepts of devolution.*

Functional Assignment

Currently local governments are working under the concept of “decentralised departments.” These departments are created, funded and staffed by their sector ministries. While the RCCs and MMDAs are now responsible for staff evaluation and discipline, the staff within these decentralised departments report directly to their sector ministries and the responsibility for hiring, transferring, payroll and staffing rests with these central government ministries. From a planning and budgeting perspective, the RCCs and MMDAs have the ability to coordinate with these decentralised departments, but have no real ability to focus planning and budget efforts to meet local needs.

When the LI for Local Government Service is approved, staff currently working within RCCs and MMDAs will no longer have a direct reporting relationship with their sector ministries. Instead, they will report to their Chief Executives either through their District Coordinating Directors or Regional Coordinating Directors depending on where they work. The respective Assemblies or Councils will forward required reports to the ministries and other central government agencies.

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The LI also provides the initial definition of functions for the RCCs and MMDAs and is a solid first step toward clear assignment of responsibility. However, challenges remain. The initial assignment of functions did not include a full review of central government functions but instead focused on “decentralized departments.” As a result, there may be other functions and responsibilities which should be reviewed and clarified and assigned.

Additionally, there is a need to go beyond the assignment of MMDA functions and responsibilities to develop service delivery guidelines which provide a basis for monitoring and evaluation. These service delivery guidelines will ensure MMDAs are meeting their responsibilities. Service delivery guidelines have not yet been developed.

The functions of all levels of government should be clearly defined, well documented and published. To meet the current challenges:

- *Service delivery guidelines in concert with national guidelines will be developed for the currently defined MMDA functional responsibilities.*
- *A review of the functions of non-decentralized organisations working directly at the District and Regional levels will be conducted and those functions best performed by the Districts or Regions will be transferred to those levels. This review will include the establishment of service delivery guidelines for the identified functions and will include Land Valuation Board, Forestry, Health and Education and others.*
- *A review of all other central government institutions will be conducted to further refine functional responsibilities and service delivery guidelines of central versus local governments.*

Operationalisation of Local Government Service

Although the Local Government Service Act 656 was enacted in 2003, the Local Government Service Secretariat is yet to be fully operational. In order for the new expenditure assignments to be successfully implemented and monitored:

The Local Government Service Secretariat must be staffed and resourced to be able to perform its legal mandate which includes the human resource and monitoring functions.

Revenue and Funding Arrangements

Policies and Target Environment

Revenue and Funding Arrangements include all revenues and funds available to the RCCs and the MMDAs: internally generated funds, central government transfers, development partner support and access to borrowing. Central government transfers consist of the District

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Assembly Common Fund, HIPC and the support of the decentralised departments by MDAs in the form of direct salary payments or transfers for administrative, service and investment costs.

To achieve devolution as directed by the Constitution, RCCs and MMDAs must have adequate financial resources and the ability to manage those resources. These local governments must be able to fulfill their functional responsibilities and be responsive to the citizens of their jurisdictions. These goals for revenue and funding arrangements are:

- RCCs and MMDAs should be funded adequately to fulfill their responsibilities.
- Revenue assignment should be clearly defined and aligned with MMDA functions and commensurate with these, allow the MMDA's sufficient room to adjust the revenues to local needs.
- Fiscal transfer systems, including both development partner and Government of Ghana funds, should:
 - ⇒ Be harmonized, simple, transparent, timely and poverty sensitive;
 - ⇒ Be predictable and stable;
 - ⇒ Include an element of performance based allocation of funds to promote efficiency and good governance and avoid disincentives with respect to the mobilisation of own source revenues;
 - ⇒ Bridge the horizontal and vertical imbalances among MMDA's as well as the gap between MMDA actual revenue potential and functional responsibilities;
 - ⇒ Avoid fiscal shocks when introducing transfer-related reforms with consideration given to introducing time-limited hold harmless provisions; and
 - ⇒ Be guided by an institutionalized oversight/review mechanism, incorporating various stakeholders, to monitor, analyze and adjust the intergovernmental fiscal system and transfers.
- Triggers and indicators should be provided to ensure systems of MMDA finance promote accountability, transparency and participation in the execution of the core business of the MMDAs.
- MMDA's should have the ability to access either credit or financial markets within defined risk limitations.

Overview of MMDA Sources of Revenue

A summary of the sources of MMDA revenues and the disbursing and reporting arrangements is presented in the following table.

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Table 3
Summary of Sources of MMDA Revenue
and Disbursing and Reporting Arrangements

Sources of Revenue	Areas of Focus	Disbursement Arrangement	Reporting Arrangements
INTERNALLY GENERATED FUNDS	<u>Functional</u> <ul style="list-style-type: none"> All functional areas <u>Expenditure Types</u> <ul style="list-style-type: none"> Personal Emoluments Travel and Transportation General Maintenance, Repairs and Renewals Miscellaneous Capital 	<ul style="list-style-type: none"> MMDAs mobilise IGF and disburses funds upon approval by DA 	<ul style="list-style-type: none"> MMDAs prepares local government accounts and submits to CAGD and MLGRDE through the RCC
DACF TRANSFERS	<u>Functional</u> <ul style="list-style-type: none"> Water & Sanitation Education Health NYEP <u>Expenditure Types</u> <ul style="list-style-type: none"> Investment (Primarily) 	<ul style="list-style-type: none"> Transfer from MOFEP to DACF Transfer from DACF to MMDAs based on formula approved by Parliament 	<ul style="list-style-type: none"> MMDAs prepare accounts and submit To DACF monthly MMDAs prepare and submit supplementary budget through RCC to DACF and MOFEP
HIPC TRANSFERS	<u>Functional</u> <ul style="list-style-type: none"> Water & Sanitation Health Education <u>Expenditure Types</u> <ul style="list-style-type: none"> Investment 	<ul style="list-style-type: none"> MOFEP release to MMDAs through MLHRDE and CAGD Funds released to MPs 	<ul style="list-style-type: none"> MMDAs prepare accounts and submit returns to CAGD and NDPC through the RCCs
GETFUND TRANSFERS	<u>Functional</u> <ul style="list-style-type: none"> Education <u>Expenditure Types</u> <ul style="list-style-type: none"> Investment 	<ul style="list-style-type: none"> MOFEP release to MMDAs through MOE to CAGD CAGD transfer to administrator of GetFund for disbursement 	<ul style="list-style-type: none"> Administrator of GetFund prepares accounts for submission to CAGD thru MOE

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Table 3
Summary of Sources of MMDA Revenue
and Disbursing and Reporting Arrangements

Sources of Revenue	Areas of Focus	Disbursement Arrangement	Reporting Arrangements
MDA TRANSFERS	<u>Functional – All</u> <ul style="list-style-type: none"> • Education • Health • Agriculture • Roads • Others <u>Expenditure Types</u> <ul style="list-style-type: none"> • Personal Emoluments (Primarily) • Administration • Services • Investment 	<ul style="list-style-type: none"> • Transfer from MOFEP and CAGD through MDAs (items 3&4) 	<ul style="list-style-type: none"> • MMDA finance office prepares central government monthly final accounts for submission to CAGD • Decentralised departments prepare and submit expenditure returns to MDAs through regional offices
SPECIALISED REVENUES Mineral Development Fund/ Mineral Royalties Stool Lands Revenue/ Timber Royalties	<u>Functional – All</u> <ul style="list-style-type: none"> • Education • Health • Agriculture • Roads • Others <u>Expenditure Types</u> Personnel Emoluments <ul style="list-style-type: none"> • Administration • Services • Investment 	<ul style="list-style-type: none"> • Transfer of funds from MDF from MOFEP and CAGD to Office of the Administrator of Stool Lands (OASL) through MLFM • OASL then disburses the funds to DAs, Traditional Authorities and others by 55%, 25% and 20% respectively allocation 	<ul style="list-style-type: none"> • MMDAs prepare central government monthly final accounts including these Specialised Revenue Sources for submission to CAGD through the RCC
DEVELOPMENT PARTNER	<u>Functional *</u> <ul style="list-style-type: none"> • Health • Education • Health • Agriculture • Water • Energy <i>* This is what is envisioned for 2008. This may change based on updated guidelines</i> <u>Expenditure Types **</u> <ul style="list-style-type: none"> • Services • Investment <i>** Based on agreements with donors</i>	<ul style="list-style-type: none"> • Direct transfer of earmarked funds • Transfers through MOFEP and MDAs 	<ul style="list-style-type: none"> • MMDAs prepare project accounts for donors in the case of earmarked funds and copy sector minister • Decentralized departments submit expenditure returns to MDAs through RCCs

While there has been a significant increase in MMDA revenue over the past 5 to 10 years, the majority of the increase has come from the DACF. According to the *Decentralisation*

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Policy Review which was issued jointly by the Government of Ghana and development partners in February 2007:

...in 2004, the IGFs constituted about 16% of the total local government revenue and increased slightly to 18% in 2005, resulting in a high MMDA dependency on central government transfers of 82% in 2005. The MMDA reported DACF funds nearly doubled eight times from about 80 billion (*80 million new Ghana Cedis*) in 1996 to more than 600 billion (*600 million new Ghana Cedis*) in 2004 whereas the IGF increased much less (2-3 times).

Currently, IGFs are the only funds over which the MMDAs have total control. Because the DACF and most development partner funds and projects are targeted toward development and cannot be used for recurrent expenditures, the ability for the MMDAs to maintain new and existing infrastructure as well as on-going programs will become more and more difficult.

MMDAs should be able to generate a larger portion of their total resources although an average benchmark has not been established. Consideration should be given to the reality that some MMDAs will not be able to generate sufficient IGFs for recurrent expenses but the average can be increased greatly.

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Legal Environment

There is a proposed Municipal Finance Bill which amends portions of Local Government Act 462. The purpose of this bill is to provide a comprehensive law on how private capital and other resources can be channeled to Assemblies in order for them to undertake infrastructure developments and provide other services more efficiently. The proposed Bill allows the MMDAs to borrow and discusses the various MMDA sources of revenue.

The Municipal Finance Authority Bill is a companion Bill which establishes an authority to provide technical assistance to MMDAs seeking to borrow. Both Bills were drafted and issued over a year ago and a report entitled, Municipal Finance and Management Initiative, was issued in December 2006 by the MLGRDE.

With respect to these two proposed Bills, there needs to be clarification on the level of MMDA autonomy on the setting of revenue bases and rates, and the borrowing authority and capability of MMDAs and incorporation of the principles of fiscal decentralisation and risk limitations.

The MLGRDE is responsible for the overall IGF framework and setting ceilings on rates. Guidelines used currently were issued in 1991. Formally, the ceilings set by MMDAs should not exceed the upper limits set by MLGRDE within the guidelines. As the ceilings are so outdated, many MMDAs are establishing rates above the ceilings or developing creative approaches around the limits established by MLGRDE. Additionally, some of the revenue sources are considered nuisance fees and the cost to collect the fee outweighs the revenue collected.

Strategies for moving forward on the regulatory framework:

- *Further discussions and reviews will be conducted on the Municipal Finance Bill and Municipal Finance Authority Bill to remove inconsistencies with other laws and principles of devolution, clarify the level of autonomy of the MMDAs with respect to establishing rates and ceiling and to ensure that the borrowing portions of the Bill contain assurances that risks will be minimized.*
- *The draft guidelines for the levy of taxes will be finalized and issued by MLGRDE as prescribed by law and, annually, thereafter.*

Internally Generated Funds

Internally generated funds consist of all revenue collected by the MMDAs. These are the only revenues over which MMDAs have complete control. IGFs consist of basic, special and property rates, fees, licenses, trading services, specialized funds, such as stool land royalties, timber royalties and mineral development funds, and investment income. From an intergovernmental fiscal decentralisation perspective, the more revenue MMDAs can generate, the more autonomy they will have.

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Although there have been improvements in IGF collections over the years, there is a general consensus that MMDAs have not fully utilized the potential of their revenue base and there is a high dependency upon central government transfers. Internationally, tax and fee revenue is considered relatively stable from year to year. However, data on MMDA revenue generation for a 5 year period shows there is a wide variation in collections. Collections for specific MMDAs tend to fluctuate significantly, both up and down, from year to year, and collections between MMDAs also vary significantly.

Manipulation of the rate levels, rather than improved coverage of the revenue base, has been the major tool in increasing revenue collection potential. However, as the revenue base gets smaller and smaller, rates are raised; revenue potential improves but actual collection performance declines due in part to resistance to the increased rates.

MMDAs face great challenges with respect to revenue mobilisation.

- The Land Valuation Board does not have adequate resources to carry out its responsibility to consistently value and re-value property. This activity is crucial for a solid revenue program throughout the country.
- Many MMDAs do not have adequate databases and those that do are not always able to maintain them properly. Effective revenue programs are dependent on up-to-date information regarding the properties and businesses upon which taxes are levied. Without this information it is impossible for the MMDA's to forecast, bill, collect and maximize the revenues due to them.
- House and street numbering has not been completed consistently throughout Ghana.
- Leadership and support from the central government has been weak.
- There has been no benchmarking to determine what level of IGF collections to total revenue received by MMDAs would be appropriate.
- In some MMDAs, there is a low appreciation by Assembly Members, staff and citizens of the importance of IGF revenue mobilisation and the relationship between taxes paid and services provided.
- There is poor collaboration and understanding within the Assemblies between the different players and actors to ensure internal control systems are strong and leakages kept to a minimum and to implement prudent tax policies.

Some of the more sophisticated MMDAs who understand the importance of revenue data bases and tax collections and who have resources available have managed to overcome some of these obstacles through creative public/private partnership arrangements, providing resources to tax assessors and collectors and hiring tax collectors on a commission basis.

MLGRDE, MOFEP and selected MMDAs are working collaboratively within a committee structure to improve MMDA revenue generation. Some of the major areas identified by this committee for improvement are: updated business and property databases; creation of MMDA revenue departments; revaluation issues; street naming and house numbering. The committee is currently reviewing property and business databases

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currently in use, a proposal for funding capacity building for revenue collectors has been sent to the DACF for consideration and a sub-committee has been formed to review rates.

Additionally there is a Land Administration Project supported by development partners which focuses on property registration, titling and data bases with listings of valued properties. According to the Land Valuation Board, the data bases will be developed and ready for distribution to the MMDAs in 2009.

In view of the number and significance of the challenges related to IGF, there is the need to allow the MMDAs to adopt strategies and practices which will work best for them while still providing the impetus to ensure that MMDAs are serious about increasing their IGF collections.

The strategies for bridging the gaps:

- *Data bases of valued, immovable properties will be computerized, data bases distributed to MMDAs and training conducted by 2009.*
- *A review will be conducted to determine the appropriate complement of staff and public / private partnerships required to catch-up on the back-log of valuations and re-valuations and to ensure the Land Valuation Board can conduct on-going valuations and re-valuations on a timely basis and to develop options for funding the Land Valuation Board. Recommendations will be implemented.*
- *An easy, but effective approach will be developed and implemented to re-value properties every five (5) years and supplementary list valuations annually.*
- *The collaborative committee with MLGRDE, MOFEP and MMDAs will continue to meet to establish a national focus for increasing IGF collections.*
- *A committee will be commissioned by the Ministry of Local Government Rural Development and Environment in collaboration with the Ministry of Works, Housing and Water Resources and other relevant MDA's to develop the framework and criteria for standardised house and street numbering as well as the funding and implementation mechanisms.*
- *Training, education and sensitisation aimed at Assembly members, District staff and citizens will be conducted in coordination with ILGS to: develop a better appreciation and understanding of the importance of expanding the tax base and IGF collections and the link between taxes and services; educate all players in their roles in the tax collection process; encourage a participatory approach to rate and fee setting; provide a forum for the sharing of new revenue mobilisation ideas.*
- *Benchmarks will be established to help identify the level of tax collections in relation to total revenues to which MMDAs should aspire.*

District Assemblies Common Fund

The introduction of the DACF was an important achievement for fiscal decentralisation. The DACF is allocated to each MMDA annually based on a formula approved by Parliament. The pool of money required to be allocated is currently 7.5% of total central government revenues. The DACF is available to the MMDAs primarily for investment purposes and is a reliable source of funding.

Almost 50% of the Common Fund is earmarked by the central government for specific MMDA purposes. As a result, the MMDA's have flexibility over about 50% of the amounts allocated to support their local investment needs. Under the devolved form of fiscal decentralisation, MMDAs should have the ability to plan and budget for their own local needs.

Although the DACF formula contains a small incentive to MMDAs to improve on their IGF collections, this is not perceived sufficient to promote real improvements. For fiscal decentralisation to be successful, MMDAs must be encouraged to step up revenue mobilisation.

Two strategies are presented for transitioning the DACF closer to the target environment:

- *The DACF allocation formula will be reviewed and analysed to determine how best to increase the performance criteria to provide greater incentives to MMDAs to improve revenue generation and financial management.*
- *A transition plan for DACF funds will be developed and implemented to decrease the percentage of earmarked funds and increase the percentage of funds over which the MMDAs have greater flexibility.*

Central Government Transfers

There are two significant areas associated with central government transfers: the transfer mechanism and the amount of funds to support the RCCs and the MMDAs.

Intergovernmental Fiscal Transfer Mechanism

As demonstrated in Table 3, *Summary of Sources of MMDA Revenue, Disbursing and Reporting Arrangements*, the existing intergovernmental fiscal transfer system is fragmented. There are many sources (DACF, HIPC, development partners' on and off-budget funding, sector funding) characterised by multiple planning, budgeting, disbursing and reporting arrangements. Additionally, there are multiple streams of funds to cover the same type of investments, particularly for capital development.

With so many funding sources, it is difficult to monitor and hard to keep up with the different reporting formats. Delays and the unpredictability of many of the grants hamper local planning and create inefficiencies in spending.

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Over the years, there has been a tendency to create new funding systems instead of improving on the existing systems and integrating them. The new District Development Fund is being developed to address donor support challenges and implementation is in 2008. The DDF will use existing Government of Ghana financial management practices and funding mechanisms. It is hoped that this will serve as the basis for harmonising the existing systems as well as integrating new funding.

Strategies to streamline and make more efficient the current transfer systems are included under Financial Management and Accountability, Payroll, Accounting and Financial Reporting. The long-term strategies for developing a more reliable and harmonised transfer system and integrating the current systems into this one system are included here:

- *The DDF will be implemented in 2008.*
- *An analysis of the problems and issues related to the DDF implementation will be conducted to develop lessons learned for a more refined harmonised transfer system.*
- *A new, harmonized transfer system for all of the various central government / development partner transfers to RCCs and MMDAs will be developed along with a transition plan for implementation. The new system will allow MMDAs to have greater control over the transfers.*

Funding RCCs and MMDAs

One of the primary goals for revenue and funding arrangements is that MMDAs and RCCs should be funded adequately to fulfill their responsibilities. Most of the funding received via central government transfers, including DACF, is earmarked in some way and, as a result, MMDAs have little flexibility over how the funding is spent. The monies received for salary payments, which is the majority of the funds received from MDAs, is for staff in decentralised departments who report directly to sector ministries.

A new funding source for MMDAs will be the DDF. Pooled funding from both development partners and GoG will be used to fund the new DDF. The DDF includes performance based criteria to serve as an incentive to enhance financial management practices at the Districts; yet, designed in such a way that no MMDAs would be punished for actions beyond their control. The District Assemblies who meet the criteria will receive additional resources. Assessments will be conducted based on the Functional and Organisational Assessment Tool. The DDF will also provide a more systematic approach to capacity building as capacity building will be targeted to those Districts that are not performing adequately based on the FOAT assessment. But the DDF is targeted toward development and capacity building and will not impact recurrent expenditures.

There is a need to look holistically at how RCCs and MMDAs are funded and the autonomy local governments will have over that funding. However, in the interim, small steps will be taken to move toward adequate funding levels.

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As a first step, MOFEP required MDAs to disaggregate budgets to identify the funding planned for each RCC and MMDA in their 2008 budgets. This budget information will not only streamline the transfer of funds through the new District treasuries created in 2006 but will also begin the compilation of solid data on current funding dedicated to the local governments.

Strategies to ensure RCCs and MMDAs are funded adequately to fulfill their responsibilities:

- *An analysis will be performed of the 2008 disaggregate budgets to determine the quantum of funding transferred to MMDAs.*
- *Composite budgeting for the 2009 budget will be implemented as a basis of funding MMDAs.*
- *MMDAs budget ceilings for the central government MDAs will be developed.*
- *A funding plan will be developed to move away from the sector funding approach to one which is government-wide and formula driven and provides more flexibility to the RCCs and MMDAs.*
- *An analysis of the full cost of functions performed by RCCs and the MDAs and the resources available will be performed and recommendations will be made on how best to achieve the results.*

Development Partner Support

MMDAs receive support from a variety of different sources and reporting and disclosure requirements vary for each funding source. While there is usually some consultation with the sector ministries, development partners and NGO's often work in regions or districts of their choice.

The approach currently taken toward direct development partner support creates conflict with the transparency principle for revenue and funding arrangements. It also makes it difficult to ensure that intergovernmental transfer payments are used to bridge the imbalances among MMDAs. Donors providing technical assistance support to districts on topics relevant to fiscal decentralisation do not currently have a framework for providing this assistance in a way that is consistent with fiscal decentralisation and an agreed set of priorities. As a result, direct development partner support can undermine fiscal decentralisation efforts.

Because development partners and NGOs have the ability to select and operate in any MMDAs of their choice, it is possible that weaker assemblies are left out of the donors' programs since they may not have the capacity to capture the attention of development partners or to fulfill the reporting and other responsibilities expected of them. Additionally, these projects are not always aligned with government or MMDA priorities and projects targeted to specific MMDAs which may have valuable lessons for all MMDAs rarely become systematised.

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Not all donors and NGO's disclose the cost of projects undertaken within MMDAs where they operate and, as a result, these costs are not captured in the accounts of the MMDAs and the fact that these grants have been received is not considered in allocating the Common Fund.

With respect to some programs aimed at the MMDAs, there is no substantial MMDA involvement, the programs and monies are not integrated into MMDA business processes. As a result, there is no MMDA ownership or commitment.

Comprehensive guidelines will be developed for development partners and NGOs to harmonise direct development support and target all projects and funds to Government of Ghana priorities.

Borrowing

MMDAs should have the ability to access credit or financial markets within defined risk limitations. As discussed under the Legal Framework, there is a proposed Municipal Finance Bill and Municipal Finance Authority Bill which will restructure the ability of MMDAs to borrow. A concern is the ability of MMDAs to put both their own funds at risk as well as central government funds.

Clear guidelines on MMDA borrowing will be developed to avoid unnecessary financial risk to public funds.

Financial Management and Accountability

Policies and Target Environment

Financial Management and Accountability covers a broad range of financial management areas including planning, budgeting, procurement, auditing, internal control, payroll, accounting, financial reporting and monitoring and evaluation of finances and programmes.

Local governments operating in a decentralised environment should have integrated financial management systems which are transparent, responsible and accountable to provide citizens and taxpayers with the assurance that public funds are safe and being used prudently. To achieve this level of accountability:

- External audits should be conducted annually and reports issued in a timely manner.
- Public hearings should be held and results should be gazetted on the Auditor General's report which includes the findings and responses by management and to follow-up on recommendations.

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- Local governments should have strong systems of internal control to ensure strong accountability over public funds.
- Financial processes including accounting, payroll and procurement should be efficient, effective, transparent and free from conflict and in accordance with the Financial Administration Act, and the Regulations and Accounting Manual for the MMDAs.
- Monitoring and evaluation processes for both programs and finances should be efficient and effective and to the extent possible non-duplicative.

Lack of capacity at the RCCs and MMDAs is often cited as a reason to delay moving forward on fiscal decentralisation. There is a growing consensus that capacity gaps at the local governments should not be seen as an obstacle for implementing fiscal decentralisation. While admittedly, there are capacity issues at the MMDAs, many at the central and local levels have the opinion that the capacity at the local levels is similar to the capacity at the central government.

To provide some insight on the capacity issues, the Controller and Accountant General's Department recently provided statistics on compliance with required financial reports. 96% of the MMDAs have met the required filings, while only 10% of the MDAs have met this same requirement.

Capacity weaknesses should be seen as a challenge to be addressed as fiscal decentralisation moves forward.

Legal Environment

Provisions within the Financial Administration Act, 2003 (Act 654) Section 15 (1) require that budget expenditures can only occur when authorized or requested by the head of department for whom it was approved. The 2008 budget is built around the sector approach and, accordingly, MMDAs do not have approval authority for the expenditures relating to the decentralized departments. When the Legislative Instrument for Local Government Service is enacted, decentralized departments will be dissolved, the staff will be transferred to the Local Government Service and relationships with MDAs will be severed. When this occurs the RCCs and MMDAs will legally not be able to access sector budget funds at the District and Regional levels.

Public Procurement Act, 2003 (Act 663) Section 41(b) and (c), outlines the procedures to follow when there is a catastrophic event or emergency. While the Act allows use of single-source procurements under these circumstances, it also requires RCCs and MMDAs to obtain approval of the Board after public notice and time for comment. Emergency situations most often require an immediate response.

To overcome these constraints, the following strategies are presented:

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- *The Appropriation Act for 2009 will assign sector based budgets for expenditures relating to the decentralised departments to the respective RCCs and MMDAs.*
- *The Financial Administration Act, Procurement Act, Audit Service Act and Internal Audit Agency Act will be reviewed and amendments proposed to accommodate the decentralisation agenda.*
- *A dialogue between the Public Procurement Authority, Local Government Service, MLGRDE and selected RCCs and MMDAs will be conducted to identify problems surrounding procurement in a decentralized environment and how to move forward on resolving those problems. Procedures incorporating those recommendations will be developed and issued.*

Planning and Budgeting

The MMDAs are currently required to develop District development plans as well as annual budgets. The MLGRDE is in the process of implementing composite budgeting using the MTEF format within all MMDAs.

The composite budget is seen as one of the first steps toward fiscal decentralisation. It is defined as the integrated budget of the MMDAs and includes the budget of the central administration as well as the decentralised departments. As Assemblies have greater autonomy over financial resources, the composite budget will provide a focus on Assembly's needs and priorities. The objectives of composite budgeting are to: obtain overall knowledge of the Assemblies financial resource envelope; effectively manage financial resources of the Assembly's; integrate the resources of the various funding sources and sectors; integrate the MMDA budgets into the national budgeting system. MMDAs will prepare their 2008 budget using the MTEF format and will begin implementation of composite budgeting in 2008. For the 2009 budget, composite budgeting will be implemented as a basis of funding MMDAs.

While there has been steady improvement in the links between the planning and budgeting processes, coordination and harmonisation around the development plan, MTEF and the budget processes continue to be a challenge:

- The NDPC issues planning guidelines, which set the development agenda for the medium term plan for the MDAs and MMDAs and the MOFEP issues annual budget guidelines.
- While the MTEF is still not rolled out to the MMDAs, the MMDAs line-based budgeting and accounting system and the MDA activity and output based MTEF system will exist in parallel, creating difficulties in reconciling expenditure and revenue information.
- The budgeting cycle of the DACF is not synchronised with that of the core GOG budget which confuses the planning and budgeting process. The development budget is in reality approved 6 months into the year.

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- The involvement of the MMDAs in the budgeting and priority setting process varies greatly across the MMDAs, and in some MMDAs, the Assemblies are not involved in both cycles.
- Some of the MDAs perform budgeting at the regional and national levels without input from their district departments.
- Delays in information from the central government including all sources of public and donor funding to the MMDAs concerning the amount of funds available for planning and budgeting purposes hampers the ability to plan and budget appropriately.
- Development plans are not always used when developing MMDA annual budgets.

To address these challenges:

A study will be conducted to review the MMDA development planning, budgeting, MTEF and capital budgeting processes so these processes can be better aligned, harmonized and coordinated. Recommendations will be implemented.

Payroll, Accounting and Financial Reporting

District Treasury Offices were established by the Controller and Accountant General's Department to make the disbursing process more efficient and to provide more autonomy to the MMDAs over MDA transfers to decentralized departments. This move was a significant step towards fiscal decentralisation. The new process handles salary and administration payments. The CAGD plans to incorporate service and investment payments in 2008.

Currently, there is no comprehensive MMDA accounting manual; however, the CAGD has developed a draft MMDA accounting manual but it has not yet been implemented. This manual will provide policy and procedural guidance with respect to accounting and financial reporting and will help to strengthen internal controls over public monies. It is expected this manual will be issued in 2008.

The MMDA and the MDA charts of accounts differ significantly. The chart of accounts of the MMDAs has six (6) main expenditure items (personal emoluments; travel and transportation; general; maintenance, repairs and renewals; miscellaneous; capital) and the MDAs use four (4) components (personal emoluments, administration, services and investments). This creates problems for integration of local and central government financial information. CAGD has developed a harmonised chart of accounts, but it has not yet been implemented.

The computerisation of the MMDA budgeting and accounting functions is limited. The Assemblies are using a combination of manual and electronic spreadsheets to control and prepare financial information. These systems do not provide support for or information on the spending in the departments of the decentralised ministries. As a result, there is a lack of information to plan and manage MMDA programs in an integrated manner.

At the MMDAs there are many different financial records and reporting formats which are

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required to be prepared for the many oversight bodies and different funding sources. However, it is not always clear how many of these organisations utilise this information or whether or not it is needed. This situation creates a burden on MMDAs due to the hours needed to prepare this information.

Delays in the transfer of funds from the various funding sources are common occurrences. This creates inefficiencies in resource utilisation and makes it difficult for MMDAs to efficiently manage cash. Some of the delays result from central government cash management issues. Other delays result from delays in transmission of funds by funding sources outside of the government.

The payroll process is highly centralized. This creates inefficiencies and lapses as the responsibilities for the payroll processing and accuracy are so far removed from the staff working in the MMDAs.

Transitioning to financial processes within the MMDAs that are efficient, effective and transparent require the following strategies:

- *The direct transfers to MMDAs will be expanded to include the expenditure categories of services and investments.*
- *A review of the transfer of funds from various sources including central government and development partners will be conducted to streamline the current process.*
- *A decentralised payroll process will be implemented in at least two regions with expansion to other regions as communication lines become more reliable.*
- *The new MMDA accounting manual will be finalised and distributed.*
- *A new chart of accounts for MMDAs will be finalised and implemented.*
- *The various financial reporting formats for the different funding sources and oversight organisations will be harmonised.*
- *A comprehensive plan including computerisation and funding options will be developed for increasing the level of computerisation to enhance and streamline financial management and reporting.*

Internal and External Audit

Well functioning internal and external audit systems are essential for a healthy financial management climate.

Internal Audit

Generally, internal controls and systems within MMDAs are weak. Internal audit units staffed by internal auditors are required for all MMDAs in compliance with both the

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Local Government Act and the Internal Audit Agency Act. While 119 of the MMDAs have established internal audit units, these units are not well integrated into the Assemblies and not yet operating effectively. Only seven (7) MMDAs have established Audit Report Implementation Committees which should provide management letter oversight by the Assemblies and seven (7) have signed audit charters. The majority of MMDAs are not submitting the required quarterly internal audit reports to the Internal Audit Agency.

The Internal Audit Agency has developed many of the materials needed by the MMDA audit units to effectively conduct internal audits: internal audit standards have been implemented; an audit manual has been written but needs to be finalized and rolled-out and training must be conducted; standardized working papers have been developed and are expected to be implemented in 2008; audit programs for two trust areas, procurement and payroll, have been completed and training conducted and audit programs for four (4) additional trust areas are planned to be developed and rolled out in the next few years; draft internal audit regulations in the form of an LI have been developed and are awaiting approval; an internal auditor certification program is in the process of being developed.

Where internal audit units are established, compliance with internal control procedures is not always adhered to. For example, there is reportedly a great deal of leakage within the revenue collection process of all MMDAs. Often, staff performing steps within financial business processes do not appreciate the importance of internal control systems or how these systems can be most effective.

Strategies to strengthen the internal audit units and internal controls:

- *MMDAs will establish internal audit units, Audit Report Implementation Committees and signed audit charters.*
- *The internal audit manual and standardized working papers will be finalized and issued and training will be conducted in coordination with ILGS.*
- *Audit programs will continue to be developed and implemented.*
- *Training programs on internal controls will be developed and implemented aimed at financial and non-financial RCC and MMDA staff to enhance understanding of the importance of roles and responsibilities within the internal control system. These programs will be developed and conducted in cooperation with ILGS.*
- *The internal auditor certification program will be finalized and implemented.*

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External Audit

Audit Service Act, 2003 (Act 584) requires the Audit Service to perform external audits in a timely manner. The audits should be conducted in such a manner to establish whether the accounts have been well kept, rules and procedures followed, funds have been appropriately expended, records have been maintained, assets protected and financial operations have been conducted efficiently. The Act also requires MMDAs to establish Audit Report Implementation Committees.

Many audit reports are not issued timely but are one year or more in arrears. This is generally due to capacity issues at both the Auditor General office and the MMDAs.

The Auditor General does not have the number of staff or the right compliment of professionals to non-professionals to perform timely audits as required by Audit Service Act. As discussed under the section *Internal Audit*, many MMDAs have not set up Audit Report Implementation Committees resulting in little Assembly oversight and follow up on management letter findings. Audit manuals, audit programmes and working papers have not been recently updated.

Many MMDAs are not finalizing their annual accounts on a timely basis and, as a result, the Auditor General cannot perform the final audit. There are many reasons cited for this problem: inadequate staff, lack of transportation, insufficient funds, special assignments, lack of attention and focus on the part of the Assemblies and staff lacking in proper qualifications. It is hoped that the FOAT assessments performed in conjunction with the DDF will begin to address these issues.

MMDAs experience audit fatigue from multiple donor audit requirements. It is possible for an Assembly to experience more than four audits in a calendar year. Government of Ghana funds are audited by the Ghana Audit Service. Donor funds are generally audited by external auditors other than the Audit Service.

The strategies to increase the timeliness of audits and the follow-up on management letter findings as well as harmonizing the multiple audits being performed:

- *A study will be conducted to determine how best to harmonize and coordinate the multiple audits being performed possibly through a “single audit” concept. Recommendations will be implemented.*
- *A review will be performed to determine the appropriate complement of staff at both the central and local levels and public / private partnerships required to catch-up on the audit backlog and, moving forward, conduct audits on a timely basis, and to develop options for funding the external audit function. Recommendations will be implemented.*
- *Audit manuals will be updated and issued.*

Procurement and Contract Administration

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Procurement systems should be efficient, effective and free from conflicts of interest. With the passage of Public Procurement Act, 2003 (Act 663) important progress has been made toward a more transparent procurement process. However some challenges still remain.

The potential exists that conflicts of interest can arise on the Entity Tender Committees and Review Boards. MPs can be involved in procurement through these committees and boards. This practice can create conflict during the contract award process between political and technical interests and is prohibited in many countries. The Public Procurement Authority has drafted a bill which is currently in the process of being ratified to address this issue.

Another important issue is related to contract monitoring and supervision. There are times when the central government awards procurement contracts and the local government staff are not knowledgeable about the award and, thus, unable to efficiently monitor and administer the contract. Other problems result when NGOs undertake projects without proper liaison with the respective RCC or MMDA. Additionally local government staff does not always understand their roles and responsibilities with respect to contract monitoring once contracts are issued. Many problems can result under these circumstances: projects which are never completed but the entire contract has been paid; delivery and acceptance of sub-standard goods or services; failure to withhold performance retention funds until projects are completed; projects which are not completed within contract timelines.

Although a procurement manual has been issued, it is not always user friendly which can lead to confusion about proper procedures. However, the Public Procurement Authority has initiated training programs so users can better appreciate how best to use the manual.

The strategies presented will address these issues:

- *A dialogue between the Public Procurement Authority, Local Government Service and selected RCCs and MMDAs will be conducted to identify problems surrounding procurement in a decentralised environment and how to move forward on resolving those problems. Specifically, the dialog will address coordination issues between the central government and RCCs and MMDAs.*
- *The procurement manual will be updated in 2009 and annually, thereafter.*
- *Training programs in liaison with ILGS will be developed and conducted for local government staff responsible for monitoring and supervising contracts.*

Monitoring and Evaluation

One of the goals for financial management and accountability is that monitoring and evaluation processes for both programs and finances should be efficient and effective and should not overlap.

Several organisations besides NDPC have on-going monitoring and evaluation responsibilities. There appears to be a considerable duplication of effort as well as a lack of coordination and collaboration between the roles of the MLGRDE inspectors, the internal auditors, various monitoring and evaluation units and the Auditor General's Office. In other cases, there appear to be gaps. For example, CAGD, MLGRDE, and the RCCs all request some of the same financial information from Districts while there appears to be little focus on MTEF compliance. These problems dilute the effectiveness of the M&E functions.

RCCs have an active role to play in this area. Currently the RCCs do not take a strong leadership position or proactive approaches when MMDAs do not comply with central government policies and programs.

Strategies for strengthening monitoring and evaluation:

- *Programmes will be developed with MMDAs, RCCs and Civil Society Organisations to focus on how RCCs can best ensure compliance by the MMDAs within their regions.*
- *A comprehensive study will be conducted on all financial and programme monitoring and evaluation programs, including the roles of internal and external auditors, aimed at the MMDAs to identify how M&E programs can be harmonized, coordinated and made more effective.*

Institutional Arrangements

The *Draft Comprehensive Decentralisation Policy Framework* provides for a mechanism to ensure that various reform initiatives in the field of fiscal decentralisation are well coordinated. An Inter-Ministerial Coordinating Committee (IMCC) will be established to provide policy direction and oversight for all aspects of the decentralisation effort and to direct the process of harmonizing sector legislation with the decentralisation policy. A technical advisory sub-committee, the Local Government Finance Committee, will also be established to coordinate the intergovernmental fiscal decentralisation efforts.

One of the challenges of the intergovernmental fiscal decentralisation program will be a consistent focus and continued progress. While the IMCC will be able to provide direction and oversight, there needs to be accountability and responsibility within the central government to ensure successful implementation.

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One of the inherent weaknesses in many decentralisation efforts is inadequate monitoring and evaluation. The decentralisation process and its achievements are difficult to appreciate without understanding and evaluating the impact. Most importantly, comprehensive monitoring and evaluation is needed to identify problems and determine how to resolve those problems. A monitoring and evaluation component for the intergovernmental fiscal decentralisation effort has yet to be planned.

One of the risks of the intergovernmental fiscal decentralisation program is the level of understanding by politicians and the bureaucracy. This must be deepened. Most technical people at both the central and local government levels are firmly committed to decentralisation and need to be more assertive about their understanding and belief in the decentralisation agenda.

Strategies for institutionalising fiscal decentralisation reforms:

- *The IMCC and the sub-committee, the Local Government Finance Committee, will be established.*
- *The Local Government Finance Committee will encourage the IMCC to pursue an aggressive communication strategy including marketing and presentations.*
- *A monitoring and evaluation program will be developed for the intergovernmental fiscal decentralisation effort.*
- *A unit within MOFEP or MLGRDE responsible for implementing the framework will be established comprised of individuals with technical expertise and facilitation skills to provide a focused, consistent and collaborative approach to implement this framework.*

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Expenditure (Functional) Assignment and Authority

Legal Environment

- *The Legislative Instrument which incorporates the functional assignments and integration of decentralized departments was submitted to Cabinet for approval in December 2007.*
- *The Committee reviewing the Local Government Act 462 will re-review the Act to ensure harmonisation with the principles of devolution and the target environment relationships presented in this Intergovernmental Fiscal Decentralisation Framework.*
- *The Inter-Ministerial Coordinating Committee on decentralisation will initiate a process to enable the Executive and Parliament to address the issues of existing and new legislation through the review of all relevant legislation to ensure it supports the concepts of devolution.*

Functional Assignment

- *Service delivery guidelines in concert with national guidelines will be developed for the currently defined MMDA functional responsibilities.*
- *A review of the functions of non-decentralized organisations working directly at the District and Regional levels will be conducted and those functions best performed by the Districts or the Regions will be transferred to those levels. This review will include the establishment of service delivery guidelines for the identified functions and will include Land Valuation Board, Forestry, Health and Education and others.*
- *A review of all other central government institutions will be conducted to further refine functional responsibilities and service delivery guidelines of central versus local governments.*

Operationalisation of Local Government Service

- *The Local Government Service Secretariat must be staffed and resourced to be able to perform its legal mandate which includes the human resource and monitoring functions.*

Revenue and Funding Arrangements

Legal Environment

- *Further discussions and reviews will be conducted on the Municipal Finance Bill and Municipal Finance Authority Bill to remove inconsistencies with other laws and principles of devolution, clarify the level of autonomy of the MMDAs with respect to establishing rates and ceiling and to ensure that the borrowing portions of the Bill contain assurances that risks will be minimized.*
- *The draft guidelines for the levy of taxes will be finalized and issued by MLGRDE as prescribed by law and, annually, thereafter.*

Internally Generated Funds

- *Data bases of valued, immovable properties will be computerized, data bases*

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distributed to MMDAs and training conducted by 2009.

- *A review will be conducted to determine the appropriate complement of staff and public / private partnerships required to catch-up on the back-log of valuations and re-valuations and to ensure the Land Valuation Board can conduct on-going valuations and re-valuations on a timely basis and to develop options for funding the Land Valuation Board. Recommendations will be implemented.*
- *An easy, but effective approach will be developed and implemented to re-value properties every five (5) years and supplementary list valuations annually.*
- *The collaborative committee with MLGRDE, MOFEP and MMDAs will continue to meet to establish a national focus for increasing IGF collections.*
- *A committee will be commissioned by the Ministry of Local Government Rural Development and Environment in collaboration with Ministry of Works, Housing and Water Resources and other relevant MDA's to develop the framework and criteria for standardised house and street numbering as well as the funding and implementation mechanisms.*
- *Training, education and sensitisation aimed at Assembly members, District staff and citizens will be conducted in coordination with ILGS to: develop a better appreciation and understanding of the importance of expanding the tax base and IGF collections and the link between taxes and services; educate all players in their roles in the tax collection process; encourage a participatory approach to rate and fee setting; provide a forum for the sharing of new revenue mobilisation ideas.*
- *Benchmarks will be established to help identify the level of tax collections in relation to total revenues to which MMDAs should aspire.*

District Assemblies Common Fund

- *The DACF allocation formula will be reviewed and analysed to determine how best to increase the performance criteria to provide greater incentives to MMDAs to improve revenue generation and financial management.*
- *A transition plan for DACF funds will be developed and implemented to decrease the percentage of earmarked funds and increase the percentage of funds over which the MMDAs have greater flexibility.*

Central Government Transfers

Intergovernmental Fiscal Transfer Mechanism

- *The DDF will be implemented in 2008.*
- *An analysis of the problems and issues related to the DDF implementation will be conducted to develop lessons learned for a more refined harmonised transfer system.*
- *A new, harmonized transfer system for all of the various central government / development partner transfers to RCCs and MMDAs will be developed along with a transition plan for implementation. The new system will allow MMDAs to have greater control over the transfers.*

Funding RCCs and MMDAs

- *An analysis will be performed of the 2008 disaggregate budgets to determine the quantum of funding transferred to MMDAs.*

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- *Composite budgeting for the 2009 budget will be implemented as a basis of funding MMDAs.*
- *MMDAs budget ceilings for the central government MDAs will be developed.*
- *A funding plan will be developed to move away from the sector funding approach to one which is government-wide and formula driven and provides more flexibility to the RCCs and MMDAs.*
- *An analysis of the full cost of functions performed by RCCs and the MDAs and the resources available will be performed and recommendations will be made on how best to achieve the results.*

Development Partner Support

- *Comprehensive guidelines will be developed for development partners and NGOs to harmonise direct development support and target all projects and funds to Government of Ghana priorities.*

Borrowing

- *Clear guidelines on MMDA borrowing will be developed to avoid unnecessary financial risk to public funds.*

Financial Management and Accountability

Legal Environment

- *The Appropriation Act for 2009 will assign sector based budgets for expenditures relating to the decentralised departments to the respective RCCs and MMDAs.*
- *The Financial Administration Act, Procurement Act, Audit Service Act and Internal Audit Agency Act will be reviewed and amendments proposed to accommodate the decentralisation agenda.*
- *A dialogue between the Public Procurement Authority, Local Government Service, MLGRDE and selected RCCs and MMDAs will be conducted to identify problems surrounding procurement in a decentralized environment and how to move forward on resolving those problems. Procedures incorporating those recommendations will be developed and issued.*

Planning and Budgeting

- *A study will be conducted to review the MMDA development planning, budgeting, MTEF and capital budgeting processes so these processes can be better aligned, harmonized and coordinated. Recommendations will be implemented.*

Payroll, Accounting and Financial Reporting

- *The direct transfers to MMDAs will be expanded to include the expenditure categories of services and investments.*

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- *A review of the transfer of funds from various sources including central government and development partners will be conducted to streamline the current process.*
- *A decentralised payroll process will be implemented in at least two regions with expansion to other regions as communication lines become more reliable.*
- *The new MMDA accounting manual will be finalised and distributed.*
- *A new chart of accounts for MMDAs will be finalised and implemented.*
- *The various financial reporting formats for the different funding sources and oversight organisations will be harmonised.*
- *A comprehensive plan including computerisation and funding options will be developed for increasing the level of computerisation to enhance and streamline financial management and reporting.*

Internal and External Audit

Internal Audit

- *MMDAs will establish internal audit units, Audit Report Implementation Committees and signed audit charters.*
- *The internal audit manual and standardized working papers will be finalized and issued and training will be conducted in coordination with ILGS.*
- *Audit programs will continue to be developed and implemented.*
- *Training programs on internal controls will be developed and implemented aimed at financial and non-financial RCC and MMDA staff to enhance understanding of the importance of roles and responsibilities within the internal control system. These programs will be developed and conducted in cooperation with ILGS.*
- *The internal auditor certification program will be finalized and implemented.*

External Audit

- *A study will be conducted to determine how best to harmonize and coordinate the multiple audits being performed possibly through a “single audit” concept. Recommendations will be implemented.*
- *A review will be performed to determine the appropriate complement of staff at both the central and local levels and public / private partnerships required to catch-up on the audit backlog and, moving forward, conduct audits on a timely basis, and to develop options for funding the external audit function. Recommendations will be implemented.*
- *Audit manuals will be updated and issued.*

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Procurement and Contract Administration

- *A dialogue between the Public Procurement Authority, Local Government Service and selected RCCs and MMDAs will be conducted to identify problems surrounding procurement in a decentralised environment and how to move forward on resolving those problems. Specifically, the dialog will address coordination issues between the central government and RCCs and MMDAs.*
- *The procurement manual will be updated in 2009 and annually, thereafter.*
- *Training programs in liaison with ILGS will be developed and conducted for local government staff responsible for monitoring and supervising contracts.*

Monitoring and Evaluation

- *Programmes will be developed with MMDAs, RCCs and Civil Society Organisations to focus on how RCCs can best ensure compliance by the MMDAs within their regions.*
- *A comprehensive study will be conducted on all financial and programme monitoring and evaluation programs, including the roles of internal and external auditors, aimed at the MMDAs to identify how M&E programs can be harmonized, coordinated and made more effective.*

Institutional Arrangements

- *The IMCC and the sub-committee, the Local Government Finance Committee, will be established.*
- *The Local Government Finance Committee will encourage the IMCC to pursue an aggressive communication strategy including marketing and presentations.*
- *A monitoring and evaluation program will be developed for the intergovernmental fiscal decentralisation effort.*
- *A unit within MOFEP or MLGRDE responsible for implementing the framework will be established comprised of individuals with technical expertise and facilitation skills to provide a focused, consistent and collaborative approach to implement this framework.*

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	LEAD ORGANIZATION	2008	2009	2010	2011	2012	2013	2014	2015	2016	2018
Operationalisation of Local Government Service											
<ul style="list-style-type: none"> Local Government Service Secretariat will be staffed and resourced to perform this as well as their other important human resource and monitoring functions. 	LGS MLGRDE	454,300	556,009	2,000,000							
Revenue and Funding Arrangements											
Legal Environment											
<ul style="list-style-type: none"> Further discussion and review will be conducted on the Municipal Finance Bill and Municipal Finance Authority Bill to remove inconsistencies with other laws and principles of devolution, clarify the level of autonomy of the MMDAs with respect to establishing rates and ceiling and to ensure that the borrowing portions of the Bill contain assurances that risks will be minimized. 	MOFEP & MLGRDE	530,000									
<ul style="list-style-type: none"> The draft guidelines for the levy of taxes will be finalized and issued as prescribed by law and, annually, thereafter 	MLGRDE	35,200	26,400	26,400							
Internally Generated Funds											
<ul style="list-style-type: none"> Data bases of valued, immovable properties will be computerized, data bases distributed to MMDAs and training conducted by 2009. 	Land Valuation Board & Land Administration Project		385,000	294,000							
<ul style="list-style-type: none"> A review will be conducted to determine the appropriate complement of staff and public / private partnerships required to catch-up on the back-log of valuations and re-valuations and to ensure the Land Valuation Board can conduct on-going valuations and re-valuations on a timely basis and to develop options for funding the Land Valuation Board. 	Land Valuation Board	784,550	19,881,003	836,853							

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Recommendations will be implemented.											
<ul style="list-style-type: none"> An easy, but effective approach will be developed and implemented to re-value properties every 5 years and supplementary list valuations annually. 	Land Valuation Board	78,690	150,034	456,566							
<ul style="list-style-type: none"> The collaborative committee with MLGRDE and MOFEP and MMDAs will continue to meet to establish a national focus for increasing IGF collections. 	MOFEP & MLGRDE	3,935,000	60,000	60,000							
<ul style="list-style-type: none"> A committee will be commissioned by the Ministry of Local Government in collaboration with Ministry of Works, Housing and Water Resources and other relevant MDA's to develop the framework and criteria for standardised house and street numbering as well as the funding and implementation mechanisms. 	MLGRDE	64,380	29200								
<ul style="list-style-type: none"> Training, education and sensitization aimed at Assembly members, District staff and citizens will be conducted in collaboration with ILGS to: develop a better appreciation and understanding of the importance of expanding the tax base and IGF collections and the link between taxes and services; educate all players in their roles in the tax collection process; encourage a participatory approach to rate and fee setting; provide a forum for the sharing of new revenue mobilisation ideas. 	MOFEP & MLGRDE	292,120	222,900	303,100							
<ul style="list-style-type: none"> Benchmarks will be established to identify the level of tax collections in relation to total revenues to which MMDAs should aspire. 	MOFEP & MLGRDE	23200	21650	22600							
District Assemblies Common Fund											
<ul style="list-style-type: none"> The DACF allocation formula will be reviewed and analysed to determine how best to increase the performance criteria to provide incentives to MMDAs to improve revenue generation and financial management. 	DACF		1,360,550	1,268,460							

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<ul style="list-style-type: none"> A transition plan for DACF funds will be developed and implemented to decrease the percentage of earmarked funds and increase the percentage of funds over which the MMDAs have greater flexibility. 	MLGRDE & MOFEP		33,400	33,400							
Central Government Transfers – Intergovernmental Fiscal Transfer Mechanism											
<ul style="list-style-type: none"> The DDF will be implemented in 2008. 	MLGRDE & LGS	500,000									
<ul style="list-style-type: none"> An analysis of the problems and issues related to the DDF implementation will be conducted to develop lessons learned for a future harmonized transfer system. 	MLGRDE & LGS		1,220,000	1,220,000							
<ul style="list-style-type: none"> A new, harmonized transfer system for all of the various central government / development partner transfers to RCCs and MMDAs will be developed along with a transition plan for implementation. The new system will allow MMDAs to have control over the transfers. 	CAGD										
Funding of RCCs and MMDAs											
<ul style="list-style-type: none"> An analysis will be performed of the 2008 disaggregate budgets to determine the quantum of funding transferred to MMDAs. 	MOFEP	50,500									
<ul style="list-style-type: none"> Composite budgeting for the 2009 budget will be implemented as a basis of funding MMDAs. 	MLGRDE	360,000									
<ul style="list-style-type: none"> MMDAs budget ceilings for the central government MDAs will be developed for the 2009 budget. 	MOFEP		10,000	10,000							
<ul style="list-style-type: none"> A funding plan will be developed to move away from the sector 	MOFEP		55,440	32,940							

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funding approach to one which is government-wide and formula driven and provides more flexibility to the RCCs and MMDAs.											
<ul style="list-style-type: none"> An analysis of the full cost of functions performed by RCCs and the MDAs and the resources available will be performed and recommendations will be made on how best to achieve the results. 	MOFEP										
Development Partner Support											
<ul style="list-style-type: none"> Comprehensive guidelines for development partners and NGOs to harmonise direct development support and target all projects and funds to Government of Ghana priorities. 	MOFEP		207,620								
Borrowing											
<ul style="list-style-type: none"> Clear guidelines on MMDA borrowing will be developed to avoid unnecessary financial risk to public funds. 	MOFEP	5,329,100									
Financial Management and Accountability											
Legal Environment											
<ul style="list-style-type: none"> The Appropriation Act for 2009 will assign the sector based budgets for expenditures relating to the decentralized departments to the respective RCCs and DAs. 	MOFEP		3,850								
<ul style="list-style-type: none"> Financial Administration Act, Procurement Act, Audit Service Act and Internal Audit Agency Act will be reviewed and amendments proposed to accommodate the decentralisation agenda. 	PUBLIC PROCUREMENT AGENCY & CAGD		134,000	134,000							

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<ul style="list-style-type: none"> A dialogue between the Public Procurement Authority, Local Government Service and MLGRDE and selected RCCs and MMDAs will be conducted to identify problems surrounding procurement in a decentralized environment and how to move forward on resolving those problems. Procedures incorporating those recommendations will be developed and issued. 	PUBLIC PROCUREMENT AGENCY	17,320									
Planning and Budgeting											
<ul style="list-style-type: none"> A study will be conducted to review the MMDA development planning, budgeting, MTEF and capital budgeting processes so these processes can be better aligned, harmonized and coordinated. Recommendations will be implemented. 	MOFEP & NDPC & MLGRDE	95,020									
Payroll, Accounting and Financial Reporting											
<ul style="list-style-type: none"> The direct transfers to MMDAs will be expanded to include the expenditure categories of services and investments. 	CAGD		0.00								
<ul style="list-style-type: none"> A review of the transfer of funds from various sources including central government and development partners will be conducted to streamline the process. 	CAGD		112,560	20,000							
<ul style="list-style-type: none"> A decentralized payroll process will be piloted in at least two regions with expansion as communication lines from the regions become more and more reliable. 	CAGD		1,262,000								
<ul style="list-style-type: none"> The new MMDA accounting manual will be finalized and distributed. 	CAGD	1,071,250									
<ul style="list-style-type: none"> A new chart of accounts for MMDAs will be finalized and implemented. 	CAGD	161,000									
<ul style="list-style-type: none"> The various financial reporting formats for the different funding 	CAGD	504,800									

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sources and oversight organizations will be harmonized.											
<ul style="list-style-type: none"> A comprehensive plan including computerization and funding options will be developed for increasing the level of computerization to enhance and streamline financial management and reporting. 	CAGD			22,200							
Internal and External Audit – Internal Audit											
<ul style="list-style-type: none"> MMDAs will establish internal audit units, Audit Report Implementation Committees and signed audit charter. 	INTERNAL AUDIT AGENCY	1,174,600									
<ul style="list-style-type: none"> The internal audit manual and standardized working papers will be finalized and issued and training will be conducted in coordination with ILGS. 	INTERNAL AUDIT AGENCY	39,900									
<ul style="list-style-type: none"> Audit programs will continue to be developed and implemented. 	INTERNAL AUDIT AGENCY	363,600	363,600	363,600							
<ul style="list-style-type: none"> Training programs on internal controls will be developed and implemented aimed at financial and non-financial RCC and MMDA staff to enhance understanding of the importance of roles and responsibilities within the internal control system. These programs will be developed and conducted in cooperation with ILGS. 	INTERNAL AUDIT AGENCY		84,000	84,000							
<ul style="list-style-type: none"> The internal auditor certification program will be finalized and implemented. 	INTERNAL AUDIT AGENCY	100,000	100,000	100,000							

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Internal and External Audit – External Audit											
<ul style="list-style-type: none"> A study will be conducted to determine how best to harmonize and coordinate the multiple audits being performed possibly through a “single audit” concept. Recommendations will be implemented. 	AUDITOR GENERAL		100,500	156,325							
<ul style="list-style-type: none"> A review will be performed to determine the appropriate complement of staff at both the central and local levels and public/private partnership required to catch-up on the audit backlog and, moving forward, conduct audits on a timely basis, and to develop options for funding the external audit function. Recommendations will be implemented. 	AUDIT SERVICE BOARD & PUBLIC SERVICE COMMISSION			13,268,100							
<ul style="list-style-type: none"> Audit manuals will be updated and issued. 	AUDITOR GENERAL		9,000	45,800							
Procurement and Contract Administration											
<ul style="list-style-type: none"> A dialogue between the Public Procurement Authority, Local Government Service and selected RCCs and MMDAs will be conducted to identify problems surrounding procurement in the decentralised environment and how to move forward on resolving those problems. Specifically, the dialog will address coordination issues between the central government and RCCs and MMDAs. 	PROCUREMENT AGENCY & ILGS SECRETARIAT	411,576	411,576								
<ul style="list-style-type: none"> The procurement manual will be updated in 2009 and annually, thereafter. 	PROCUREMENT AGENCY		86,802	84,720							
<ul style="list-style-type: none"> Training programs in liaison with the ILGS will be developed and conducted for local government staff responsible for monitoring and supervising contracts. 	PROCUREMENT AGENCY/LGS/ ILGS			627,117							
Monitoring and Evaluation											

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<ul style="list-style-type: none"> Programs will be developed with MMDAs, RCCs and Civil Society Organisations to focus on how RCCs can best ensure compliance by the MMDAs within their regions. 	LGS Secretariat			911,000.00							
<ul style="list-style-type: none"> A comprehensive study will be conducted on all financial and programme monitoring and evaluation programs, including the roles of internal and external auditors, aimed at the MMDAs to identify how M&E programs can be harmonized, coordinated and made more effective. 	LGF COMMITTEE										
Institutional Arrangements											
<ul style="list-style-type: none"> The IMCC and the sub-committee, the Local Government Finance Committee, will be established. 	MLGRDE	4,560									
<ul style="list-style-type: none"> The Local Government Finance Committee will encourage the IMCC to pursue an aggressive communication strategy including marketing and presentations. 	LGF Committee	2,400									
<ul style="list-style-type: none"> A monitoring and evaluation program will be developed for the intergovernmental fiscal decentralization effort. 	LGF COMMITTEE		7500								
<ul style="list-style-type: none"> A unit within MOFEP or MLGRDE responsible for implementing the framework will be established comprised of individuals with technical expertise and facilitation skills to provide a focused, consistent and collaborative approach to implement this framework. 	MOFEP / MLGRDE	391,800									