

Component 3: Support for Ghana Audit Service

Final Draft

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| COVER PAGE | |
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| Country: | Ghana |
| Sector: | Decentralisation |
| Title: | Support for Ghana Audit Service |
| National Agencies: | Ghana Audit Service |
| Duration: | 5 years |
| Starting Date: | January 2009 |
| Overall Budget Frame: | DKK 20,00 million |
| <p><i>Description:</i></p> <p>The component supports the overall financial credibility of decentralisation in Ghana. Ghana Audit Service will audit district accounts and train District Assemblies and hereby strengthening the financial management of the overall Local Service Delivery and Governance Programme, as most of the direct expenditures in LSDGP will take place at district level.</p> <p>Annual and performance audits of District Assemblies will be carried out as required in the DDF/FOAT framework and Ghana Audit Service will contribute to the decentralisation process by enhancing the financial and accounting capacity and strengthening accountability in Local Government.</p> <p>The component has two immediate objectives:</p> <ol style="list-style-type: none"> 1. Timely and comprehensive annual audits of all District Assemblies 2. Capacity building of Ghana Audit Service in relation to Performance Audits at the Local Government Units. <p>The component has 3 outputs:</p> <ol style="list-style-type: none"> 1. Increased number of Annual Audits performed by staff in the Districts 2. Introduction of Performance Audits to the decentralised institutions 3. Improved financial management in the districts <p>The activities will include identification of weak areas, preliminary evaluations, assessment of resource requirements, planning of activities, training of staff, audit execution of both financial and performance audits in the districts, monitoring of activities and report writing.</p> <p>The component will be implemented by Ghana Audit Service</p> | |

LIST OF ABBREVIATIONS

| | |
|---------|--|
| CAGD | Controller and Accountant General's Department |
| CIDA | Canadian International Development Agency |
| DA | District Assembly |
| CBA | Capacity Building Assessment/Needs |
| Danida | Danish International Development Assistance |
| DDF | District Development Fund |
| DKK | Danish Kroner |
| DWAP | District Wide Assistance Programme |
| DWD | District Works Department |
| FAA | Financial Administration Act 654 |
| FOAT | Functional and Organisational Assessment Tool |
| GAS | Ghana Audit Service |
| GEMP | Ghana Environmental Management Programme |
| GoG | Government of Ghana |
| GPRS | Growth and Poverty Reduction Strategy |
| GTZ | Deutsche Gesellschaft für Technisches Zusammenarbeit |
| INTOSAI | International Organisation of Supreme Audit Institutions |
| KfW | Kreditanstalt für Wiederaufbau |
| MDBS | Multi Donor Budgetary Support |
| MiDA | Millennium Development Authority |
| MLGRD | Ministry of Local Government and Rural Development |
| MOFEP | Ministry of finance and Economic Planning |
| M&E | Monitoring and Evaluation |
| MMDAs | Metropolitan, Municipal and District Assemblies (DAs) |
| NGO | Non-Governmental Organisation |
| O&M | Operation and maintenance |
| PFM | Public Financial Management |
| PO | Partner Organisation |
| RDE | Royal Danish Embassy |
| SAI | Supreme Audit Institutions |
| SC | Steering Committee |
| SPS | Sector Programme Support |
| SWAP | Sector Wide Approach |
| TA | Technical Assistance |
| ToR | Terms of Reference |

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1. Introduction

1.1 External Audits in PFM context

Universally, the external auditing of government and its public sector entities is recognised as an essential part of the good governance through which elected governments are assessed and held accountable for their management and utilisation of public funds. The auditing activities are performed by a supreme audit institution (SAI) which, in accordance with the principles and qualification criteria should be politically, legally and financially independent of the executive branch of government and should report audit findings and recommendations directly to the legislature.

The independence of a modern SAI to deliver its mandate is largely determined and assessed on the basis of the adequacy, competency skills and quality of human resource base of the SAI, the availability of appropriate financial, material and logistical resources to the SAI, the freedom of the SAI to plan and undertake contemporary audits in accordance with its own programmes and priorities, and the capacity to produce timely reports on audits performed to the legislature and follow up actions taken by the SAI on its reports. The independence requirements and mandate of the Auditor General places SAI in a key role in the public management systems of the country and is one of the key players in the fight against corruption.

Until a few decades ago, SAI's have been carrying out mostly financial and compliance audits. The growth and complexity of the public sector programmes and activities have now led to the introduction of other varieties of audit and reviews which modern SAIs are required to undertake to complement financial and compliance audits which are no longer considered adequate to ensure a satisfactory level of discharge of accountability in the use of public resources. One of these audit forms is the performance audit which audits “value for money” of public expenditure.

1.2 Ghana Audit Service

The present Ghana Audit Service (GAS) was previously known as the Audit Department from 1910 and later in the 1950's as the Auditor General's Department. On the basis of the findings and recommendations of the 1968 Constitutional Commission, the Auditor General's Department was converted into the present Audit Service by the 1969 Constitution and provided with a Constitutional Governing Board, the Audit Service Board, to secure the independence of the Audit Service. The main reason for the conversion of the Department into the Audit

Service was to remove the department from the traditional control of the Establishment Secretariat and the Ministry of Finance.

The proposals and recommendations of the 1968 Constitutional Commission justified the legal, financial, political, administrative and operational independence of the Auditor General and was translated into provisions in the 1969 and succeeding constitutions. These principles of independence are currently reflected in the following provisions in the 1992 Constitution, which states that:

- There shall be an Auditor General whose office shall be a public office of the Constitution, providing for the constitutional/legal establishment and continuing existence of the office of the Auditor General, which cannot be abolished by any person or authority.
- In the performance of his functions under this constitution or any other law, the Auditor General shall not be subject to the direction or control of any other person or authority, i.e. giving political and operational independence to the Auditor General.
- The administrative expenses of the Office of the Auditor General including all salaries, allowances, gratuities and pensions payable to or in respect of persons serving in the Audit Service shall be a charge on the consolidated fund, placing audit costs outside the annual appropriation process, thus giving and guaranteeing financial independence to the Office of the Auditor General.
- There shall be an Audit Service, which shall form part of the Public Services of Ghana, establishing the Audit Service as a constitutional body outside the control of the Executive.
- There shall be an Audit Service Board, which shall determine the terms and condition of service of officers and other employees in the Audit Service, thus securing administrative and financial independence of the audit Service.

The Audit Service Act of 2000 has expanded some of the Constitutional provisions to enhance the independence of the Office of the Auditor General by requiring that the Audit Service Board shall determine the structure and technical expertise required for the efficient performance of the Service and ensure that the auditing activities are carried out in accordance with the best international standards. Moreover, the Act of 2000 has mandated the Auditor General to carry out not only the statutory financial and compliance audits but also performance or value for money audits, environmental audits, forensic audits and any other emerging audits recognized by International Organisation of Supreme Audit Institutions (INTOSAI)

The Public Procurement Act, 2003 has introduced procurement audit into the activities of the Audit Service. The Financial Administration Act 2003, which among other things, requires Ministries, Departments and Agencies (MDAs) to maintain accounts in accordance with international standards has also brought new challenges to the Audit Service's outputs and impacts of budgetary allocations made to MDAs

which are expected to be assessed and reported upon by the Service in addition to the financial audits in 2008.

Before the 1969 constitution, the Auditor General was responsible for the audit of only the Central Government and its departments. The 1969 and succeeding constitutions and laws of Ghana have extended the scope of audit to the whole of the public sector.

Ghana Audit Service is currently present in 65 of the 171 districts and is planning to establish more district offices during the next years. Thus with their 38% representation it becomes difficult to traverse the whole country on time for the audits as required by law. In addition the districts are constrained by inadequate staff capacity, e.g. some districts that cover 2 or 3 district assemblies have only 4 or less field personnel. Again, expected logistical supports are not readily available for use. For instance, laptops, photocopiers, scanners, printers, file cabinets and other electronic storage devices are in short supply over the plan period.

1.3 Challenges and Constraints for GAS

Notwithstanding constitutional provisions on the legal, operational, administrative, political and financial independence of the Office of the Auditor General, agencies of the Executive branch of Government, particularly Ministry of Finance and Economic Planning (MoFEP) and Controller Accountant General's Department (CAGD) continue to treat GAS like a department of the Executive and to subject the Service to executive policies and control. Because of the lack of appreciation of the independence requirements of the Audit Service, the human, financial, material and logistical resources as planned and budgeted for under prescribed constitutional and statutory procedures to cover the operations GAS receives less than needed.

The current staff position of the Audit Service is less than 1,400 whereas in 1978 staff on board was 1,657, and the entities subject to audit were less and did not include i.e. the VAT Service, the Road Fund, GET Fund and District Assemblies Common Fund. The 1992 Constitution mandates the Auditor-General to audit the whole of the public sector including the:

- Courts;
- Central and local government administrations;
- Universities and public institutions of like nature; and
- Public corporations or other bodies/organisations established by an Act of Parliament.

These institutions number over 6,700. Aside the Management Reports to be issued on each of these entities, these reports are expected to be summarised into seven Annual Reports for the information of Parliament. In addition, 10 Performance Audit Reports are submitted annually. It is estimated that approximately 65% of the total number of audits has been carried out, meaning that GAS is still struggling with a heavy backlog.

1.4 Danida and Other Donor Support for GAS

Development partners have signed agreements with GOG requiring Ghana Audit Service to undertake audits of Central and Local Government institutions using INTOSAI standards. The audit reports are triggers for continued donor support to Ghana. These include District Wide Assistance Programme (DWAP), Ghana Environmental Management Programme (GEMP), District Development Fund/Functional and Organisational Assessment Tool (DDF/FOAT), Millennium Development Authority (MiDA) and Multi-Donor Budgetary Support (MDBS).

CIDA supports the District Wide Assistant Program (DWAP) through MoFEP. The programme totals USD 15 million and is expected to continue until 2009. The purpose has been strengthening of District Assemblies in the Northern Region. EU is providing some technical support to GAS.

Danida has together with KFW and CIDA supported a special audit of “Selected Flows in the Government Accounts”, which has been conducted by an international audit company but headed by GAS. One of the objectives of the programme has been capacity building of GAS. The Danish support comes from the Good Governance program (MDBS component) and it is the third year the audit is carried out.

2. Description of the Component

An independent Audit institution plays an important role in the formal system of financial accountability by assessing financial management issues across the public sector and allowing connections to be made between their work and other reform initiatives by auditing and reporting on their delivery.

The aim of the component is to contribute to the decentralisation process by enhancing the financial and accounting capacity to the district assemblies and strengthening financial accountability in order to avoid misapplication and inappropriate use of funds. A precondition for funds used according to objectives and agreements is, among other things, a well functioning audit system. For that purpose it has been decided to support Ghana Audit Service in their endeavours to

include all District Assemblies in the annual audits and to improve the performance audits.

Ghana Audit Service currently faces a number of challenges in the conduction of the annual audits, among other things:

- The increase of the number of entities subject to audit has not been accomplished with sufficient funds; on the contrary there has been persistent reduction in the budgetary allocations.
- The manpower and salary ceilings imposed by MOFEP on the Service have prevented the recruitment and retention of qualified and required staff.
- Delays by MOFEP and CAGD in the release of allocated funds.

The Audit Service Board approved total estimates of US\$127million for the period 2009 – 2013. This approval was in pursuance of the objective of moving the Audit Service forward in adequately fulfilling its constitutional mandate. The proposals were also meant to enable the Audit Service bringing on board new trends in audit methodology and expand its audit coverage to reach a larger scale of the 6,700 entities that GAS is supposed to audit annually. The Audit Service Board also recommended local training of staff, production of audit manuals and the undertaking of performance audits. Nevertheless, the Government of Ghana (GoG's) recommended ceiling is US\$47,315,881 representing 37.26% of the approved amount.

Many MMDA's are not finalising their annual accounts on a timely basis and, as a result, the Auditor General cannot perform the final audit. The reasons for this problem are 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.

MMDA's are constraint by 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 GAS while Donor funds in many cases are 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 are:

- Conduction of studies to determine how to harmonize and coordinate the multiple audits being performed possibly through a "single audit" concept.
- Reviews to determine the appropriate complement of staff at both central and local level 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.

2.1 Main Content of the Component

For the efficient delivery of its constitutional obligations, the Service has been divided into seven expenditure cost centres. These Cost Centres are:

| | | |
|--|---|--------------------------|
| Auditor-General's Secretariat | - | (Cost Centre 01); |
| Administration and Staff Development | - | (Cost Centre 02); |
| Regional and District Audits | - | (Cost Centre 03); |
| Planning, Performance and Special Audits | - | (Cost Centre 04); |
| Commercial Audits | - | (Cost Centre 05); |
| Central Government Audits | - | (Cost Centre 06); |
| Internal Audit | - | (Cost Centre 07) |

Solely cost centre 03 "Regional and District Audits" is covered by this programme. Performance audits on the regional level are included in the cost centre.

The Auditor-General has planned the following activities for 2009 and beyond in response to GAS's expanding scope of work. These proposed activities are basically in the domain of Cost Centre 03 – the Regional and District Audits and include:

- Meeting MDDBS targets for 2008 – specifically in relation to implementation of PSR work plans, implementation of plan for intergovernmental fiscal framework, and timeliness of annual audits;
- Procurement audit as stated in the Public Procurement Act, 2003, Act 663;
- Review of Contracts as in the Financial Administration Act. (FAA), 2003, Act 654, section 17(4);
- Establish a surcharge and disallowance desk;
- Extension of audit coverage to the payroll of all the Revenue Agencies;
- Audit of the GPRS;
- Audit of the NHIS Fund;
- Audit of the District Assemblies Common Fund;
- Audit of the Schools Feeding Programme;
- Audit of the newly created Millennium Development Authority (MiDA);
- The conduct of 17 new studies in areas selected for Performance Audit review; and
- Undertake extensive training of all categories of staff especially at the districts

In response to the Audit Service Act, the FAA and stakeholders requests and declared interest, the Audit Service will also carry out selected audits using the Performance and Forensic Audit approach in addition to the traditional financial or regularity audit approach. Computerised and Electronic Systems certification audits will be carried out in the planned period including the audit of Budget Planning, and Expenditure Monitoring Systems (BPEMS).

The total 2009 budget for audit and capacity development of the district assemblies is USD 8.7 mill. GOG funds for 2009 are USD 1.7 mill. i.e. barely 20% of the budget (refer to Annex 1).

Furthermore, training in up-to-date audit methodologies to sharpen the skills of staff is lagging behind. Hitherto centred in Accra, the Service lacks adequate resources to extend training to the Regions and Districts. E.g. out of the 1,934 total staff, only 53 are performance audit trained. Meanwhile, it is the intention of the Audit Service Board that performance auditing is carried out in connection to 33% of the mandated audits. To achieve this objective, training in performance auditing in the next 5 years is needed to build the required capacity.

The effects of some of the constraints and challenges facing the Audit Service are provided below:

- The Audit Service has not been able to carry out financial audits of all the entities required under the laws of the country. Current level of performance is estimated at 65%. In effect, providing assurance to Parliament of the national expenditure would be in danger.
- It is in the work plan to include Procurement audit, required under the Public Procurement Act 2003 in the financial audit. Public Procurement is known to account for about 55% of national expenditure, and if it is not audited the essence of accountability inherent in the Act will be defeated.
- Performance audit is at the basic level. No performance audit review of physical infrastructural projects like roads, bridges, buildings etc. has taken place since 2000 when the Audit Service Act was enacted and introduced performance auditing. Government programmes like Venture Capital Fund, School Feeding Programme and development programmes funded under the DACF have not before 2008 benefited from performance audit as well as other donor projects.
- Special audits required under the Audit Service Act to be undertaken into the operations of beneficiaries of government loans, guarantees and commodity aid are yet to be carried out.
- The Audit Service has not yet started the review and approval of electronic and computerised systems of clients before these are operationalised as required by the Constitution and the Audit Service Act. There is no assurance that established systems have integrated adequate controls in their operating

- systems to avoid or detect, on a timely basis, fraudulent manipulation of such systems. GAS to conduct review of the computerised systems and to set up standards to met.
- Payroll audit has not been extended to basic schools and the management of Capitation Grant to schools given on the basis of number of children enrolled is yet to receive attention. The effort at reducing the incidence of ghost workers will also be in jeopardy.
 - Examination and clearance of contracts required under the Financial Administration Act has not been undertaken, thus due diligence cannot be ascertained.
 - Training programmes have not been regularly organised to keep operational staff informed about modern and emerging methodologies. This also applies to professional firms engaged by the Auditor-General whose reports often do not reflect public sector issues as may be required.
 - Investments in office structures and facilities particularly at the district level to allow for increased audit coverage are lagging behind planned activities.

2.2 Intermediate and immediate objectives

The **intermediate objective** of the component is:

“Audit coverage of all districts under the DDF/FOAT Agreement, not only in regard to financial and compliance audits but also performance audits”.

The component has **two immediate objectives**:

Immediate objective 1:

“Timely and comprehensive annual audits of all District Assemblies”.

Immediate objective no 2:

“Capacity Building of GAS in relation to Performance Audits”.

2.3 Outputs

All outputs under component 3 are related to cost centre 3 within Ghana Audit Service. Operational gaps identified by GAS and other areas of concern will be prioritised. Special attention will be given to the planning and execution of performance audits. District Assembly accounting staff will participate in training courses under the Danida support to GAS as well as in-house training programmes scheduled for the period 2009 – 2013 in performance audits

The component has following specific outputs:

Output 1: Annual audits performed by staff in the districts

Output 2: Regular and improved performance audits

Output 3: Improved accountability and financial management in the districts

2.4 Activities

Activities under the component will include identification of weak areas and districts which need extra attention, preliminary evaluations, assessment of resource requirements, planning of activities, training of staff, audit execution, monitoring of activities and report writing. Annual work plans must in details describe how to prioritize audits of the district assemblies and reports shall include explanations of discrepancies between planned and achieved activities.

The activities, which will lead to the outputs above, are:

Activities related to Output 1:

Activity 1.1: Training of Audit staff in the 65 district Audit offices

Activity 1.2: Production of Guidelines and Manuals

Activities related to Output 2:

Activity 2.1: Training of district audit officers in the execution of performance audits.

Activity 2.2: Update of Guidelines for GAS Performance Audits

Activities related to Output 3:

Activity 3.1: Training sessions in relevant accounting methods and regulations for accounting staff in the district offices in accordance with guidelines provided by CAGD.

2.5 Inputs

Contribution by Government of Ghana

The government of Ghana will provide funds for administration and salary to enable GAS to perform nationwide audits of district assemblies.

Inputs by Danida

Danida will provide additional funds, especially for training of regional audit staff, production of guidelines and manuals, local training in - and conduction of - performance audits. Personal Emolument (PE) and other PE related allowances are excluded from this budget since these are the sole responsibility of GOG.

2.6 Assumptions, preconditions and risks

Assumptions

- Regional/District Offices of the Audit Service will not only be responsible for the audit of DA's but will also cover Educational Institutions, MDA's including IRS, CEPS, VAT, Hospitals, the Courts etc. located within the various Districts.
- Performance audits in addition to financial audit will be conducted to allow for visits to project sites and assessment of impact of developmental programmes as being done under the District Wide Assistance Programmes of MLGRDE. Limited resources from GOG to GAS have not allowed for full range of operational audits to be carried out under regular audits of the DA's.
- INTOSAI standards which include planning, supervision, monitoring and quality assurance among others will be applied.
- Management letters will be issued by DA's or their supervisors to cover interim audits undertaken. Annual audit reports and audit opinion on the accounts will be issued by the Regional Auditors on behalf of the Auditor General. This will signify the discharge of the auditing obligations of the Service under the DDF/FOAT Agreement
- Unsolved issues in Management Letters and annual reports issued respectively by District and Regional Auditors will be collated and consolidated into the annual Report of the Auditor General and presented to Parliament.
- Guidelines and accounting manuals at DA level are being provided by Controller and Accountant General's office.

Preconditions

- Interim audits will be conducted between September and November in the financial year whilst the annual audit will take place in April and May in the following year.
- The Government of Ghana shall be responsible for the provision of human resources required to undertake the audit of the District Assemblies as provided under the DDF/FOAT Agreement

- Inflation in general would be considered in subsequent budgets of GAS, as it will affect fuel prices, hotel accommodation costs, stationary and administrative costs including new rates of per diem allowances as approved by the Audit Service Board.

Risks

The risks that may affect the achievement of the intended results are:

- Late or non-submission of annual accounts of District Assemblies
- Imposition of human resource ceiling on the service and delayed or non engagement of staff recruited by the Audit Service Board in accordance with the constitution and the Service Act.
- Non or delayed release of funds required for the audits.
- Limited or non access to DA accounts.
- Lack of oversight and risk of conflict of interests leading to corruption at lower levels.

3. Organisation, management and administration

3.1 Management of the component

The overall management of the programme will rest with the Royal Danish Embassy (RDE). Ghana Audit Service will be required to appoint one of their senior staff members as a 'Contact Officer'. The contact officer is the liaison between the institution and the RDE, and will ensure delivery of reports as agreed, discuss adjustments of implementation and any other issues arising. Internally in the Service, the programme will have an internal steering committee (SC). This arrangement serves to ensure that decision making and responsibility at institution level is shared. Such a committee may also include programmes from other development partners.

The internal SC is responsible for ensuring that the programme is implemented, outputs achieved and funds managed efficiently and effectively, in accordance with the Component description. The internal steering committee will approve annual plans and budgets and revisions within the above-agreed framework. The SC is furthermore responsible for the annual progress and financial reports, recommendations of periodic joint reviews and for ensuring that all joint decisions are followed up and implemented. The bases for monitoring and decision-making are the plans, budgets and reports produced by the different units within the institutions and approved under the annual work plans.

All management decisions made by the internal steering committees are subject to ex-post approval by the officer responsible for LSDGP at the Danish Embassy.

3.2 Financial management and procurement issues

Financial management

In general, financial management will follow the Government of Ghana regulations and be in conformity with Danida regulations. Wherever applicable expenditures should be on budget and aligned to national rules and procedures.

To ensure that the Danish support is on budget and to enhance GOG's overall coordination and management of finances for public institutions, the funds for GAS will be transferred through MOFEP/CAGD. Though the objective is to strengthen MOFEP's coordinating and managing role, the regular GOG transfers for salaries and administration should, however, not be affected by the Danish support

Flow of funds

On request of the Danish Embassy, MOFEP will advise CAGD to establish a separate foreign currency account at the Bank of Ghana for the support to the Local Service Delivery and Governance Programme. On the basis of request from GAS, and according to annual work plan and budgets, the Embassy will transfer funds to the account in BOG. The transfer will be followed by a letter to BOG, CAGD and GAS, stating transfer date, beneficiary institution and amount to be transferred. Furthermore, the letter will instruct CAGD to release the funds within 10 working days. When CAGD have released the funds they should send out letters to the embassy and to the institution, informing them that the funds have been transferred into their programme account, which will also be held at the BOG.

The agreement between the Embassy and MoFEP will be committed to paper in the Government Agreement. The Government Agreement will clearly stipulate the purpose of the account, timeliness and completeness of transfers, sanctions in case of delays and the obligation to submit bank statements to the Embassy. It will also make clear that the support being provided is intended to be additional to the existing GoG support and not to substitute for GoG funds.

Accounting and Financial Reporting

The institutions and organisations shall prepare and provide the Embassy with timely and reliable financial reports for an efficient monitoring of the use of funds in

relation to the implementation progress. The reports shall be made on a quarterly basis and should cover both donor and GOG funds, although the Embassy will not require a breakdown of expenditure for the GoG funds.

The financial reports must contain a breakdown of expenditures to a level of details sufficient to monitor expenditures in relation to output at the same level of breakdown as in the component description. The reports shall include details of the original grant, fund spent until reporting date (current year and in total), funds committed until reporting date, expected additional expenditures until component completion, balance on current year's budget as per reporting date, and remaining balance on the grant for future financial years.

There must be correlation between the annual work plans, budgets and financial reports. The reports shall include explanations of material variations between current year's budget and actual expenditures in relation to planned and achieved activities. Financial implications in relation to the remaining part of the programme period shall be highlighted.

GAS must maintain the accounting manual. The manual must describe in detail the accounting procedures, the organisation of the accounting function and the accounting system. The manual shall emphasize the management's responsibility to maintain a proper record keeping system, to control the use of funds in relation to achievements of objectives and to set up internal control functions.

Danida holds the right to withhold payment of funds until sufficient documentation has been received on previous expenditures.

Auditing

The component shall be audited annually by an independent audit institution. The requirement is that audits must be completed within six months after the close of each financial year. The purpose of the audit is to establish whether the accounts have been properly kept and whether rules and procedures have been followed. The annual audit shall include – but not limited to – inspection of accounting records including examination of documentation for transactions, confirmation of cash and bank holdings, checking of bank reconciliation, verification of physical inventories and fixed assets, and financial operations conducted with due regards to efficiency and effectiveness. The audit shall include a test of compliance with the accounting manual, and an audit of the procurement function. The audits shall follow either International Standards of Auditing (ISA) or audit standards issued by the International Organisation of Supreme Audit Institutions (INTOSAI).

Although Ghana Audit Service will be conducting the audits for the remaining part of the programme, the auditor for this component must obviously be another company

than GAS. Submission of final audits will be subject to approval by the EOD's representative prior to submission to Danida.

4. Budget

The overall budget for the component is DKK 20,000,000. The tables below show the overall budget and the output/activity budget per year.

4.1 Overall Budget

| Objectives | Total |
|---|-------------------|
| General Training and Audit of DA's | 10,400,000 |
| Performance Audits | 9,000,000 |
| External Audit of Component | 100,000 |
| | |
| Total | 19,500,000 |
| Contingencies (2.5 %) | 500,000 |
| GRAND TOTAL | 20,000,000 |

4.2 Detailed Budget

| Code | Output/Activity | 2009 | 2010 | 2011 | 2012 | 2013 | Total |
|-----------------------------|--|------------------|------------------|------------------|------------------|------------------|-------------------|
| Activity 1.1 | Training of staff in Districts | 1,625,000 | 1,112,500 | 837,500 | 837,500 | 587,500 | 5,000,000 |
| Activity 1.2 | Prod. of Guidelines and Manuals | 975,000 | 667,500 | 502,500 | 502,500 | 352,500 | 3,000,000 |
| Objective 1 | Annual Audits of DA's | 2,600,000 | 1,780,000 | 1,340,000 | 1,340,000 | 940,000 | 8,000,000 |
| Activity 2.1 | Training of staff in Performance Audits | 2,600,000 | 1,780,000 | 1,340,000 | 1,340,000 | 940,000 | 8,000,000 |
| Activity 2.2 | Update of Guidelines | 325,000 | 222,500 | 167,500 | 167,500 | 117,500 | 1,000,000 |
| Objective 2 | Improved Performance Audits | 2,925,000 | 2,002,500 | 1,507,500 | 1,507,500 | 1,057,500 | 9,000,000 |
| Objective/Activity 3 | Training of Accounting staff in Districts | 855,000 | 547,500 | 382,500 | 382,500 | 232,500 | 2,400,000 |
| | External Audit | 20,000 | 20,000 | 20,000 | 20,000 | 20,000 | 100,000 |
| | Contingencies | 100,000 | 100,000 | 100,000 | 100,000 | 100,000 | 500,000 |
| | Other expenses Total | 120,000 | 120,000 | 120,000 | 120,000 | 120,000 | 600,000 |
| | Grand Total | 6,500,000 | 4,450,000 | 3,350,000 | 3,350,000 | 2,350,000 | 20,000,000 |

5. Monitoring, reporting, reviews and evaluation

Component performance will be monitored and reviewed against objectives, targets and any specific conditionality to be specified at the onset of the component.

However, this progress monitoring is primarily a management instrument, which shall help the management and the NPSC to secure that the activities are on track.

Furthermore, monitoring will be conducted in relation to the indicators to be defined on the basis on the GPRS II.

5.1 Indicators

The indicators for the sub-component are presented in the following matrix.

| Development objective | Verifiable indicators | Means of verification |
|--|---|--|
| <i>Audit coverage of all districts under the DDF/FOAT Agreement, not only in regard to financial and compliance audits but also performance audits</i> | Training of 200 Local Financial Auditors in financial management, annual audits and performance audit techniques. | Coverage of all districts by auditors. Reports reflecting improvement of financial management. |
| Immediate objectives | | |
| <u>Immediate objective 1:</u> <i>Timely and comprehensive annual audits of all District Assemblies</i> | Production of 400 Guidelines and Manuals | Availability and use of manuals. Manuals distributed. Audits improved. |
| <u>Immediate objective no 2:</u> <i>Capacity Building of GAS in relation to Performance audits</i> | Ability to conduct performance Audits in the districts | Performance audit reports |

5.2 Reviews and evaluations

As part of LSDGP, the Component will be subject to periodical reviews, undertaken jointly by Danida, Ghanaian partners and possibly other donors. Reviews may have a different focus and emphasis from year to year and will not necessarily be full-scale reviews for individual sub-components. NPSC and Danida may decide in collaboration to undertake technical assessments or evaluations on specific issues at any time during the component period.

